REPORT of the AUDITOR GENERAL to the NOVA SCOTIA HOUSE OF ASSEMBLY

HIGHLIGHTS

PREFACE

Under Section 9A(1) of the Auditor General Act, I have the mandate to issue two additional reports each year as well as special reports. These are in addition to the Annual Report which is traditionally tabled in December each year.

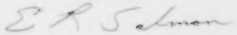
This Report includes the results of audit work conducted from December 2003 to May 2004. I anticipate that we will prepare and table similar semi-annual reports in future years.

In an attempt to give readers an appreciation of the most significant findings contained in my June 2004 Report, I publish this highlights volume. It provides a brief summary of the results of audit work carried out to date in 2004.

However I do suggest that those who wish a fuller understanding of any or all of these matters should refer to the full Report. The highlights volume notes the page numbers of the full Report for each of the subjects.

Again this year we have set out our recommendations to government in each Chapter. To assist readers we have also included all 56 recommendations in this highlights volume. I hope this is useful.

It is also the intent of myself and my staff to provide our messages as clearly and concisely as possible. Comments from readers on the value of this highlights volume or on the complete Report would be welcomed.



E. ROY SALMON, FCA
Auditor General

Halifax, Nova Scotia
May 17, 2004

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INTRODUCTION

Message from the Auditor General
Page 2

1.1 The objective of this Report is to provide information to the House of Assembly on a more timely basis and allow the Public Accounts Committee to call witnesses and deal with matters while they are more current. Discussions with members of the Committee indicate they favour this approach.

1.2 I trust this Report will be useful to members of the House of Assembly and I would welcome comments and reactions to the content and particularly the timing. I would also like to express my appreciation to my staff for their efforts in adapting to the demands of this process change.

GOVERNMENT-WIDE ISSUES

Government Financial Reporting
Pages 4-14

2.1 The Auditor General's opinion on the government's 2004-05 revenue estimates was qualified for the same reasons as the previous year. It was tabled April 22, 2004 as part of the Nova Scotia Budget publication (page A2). A management letter on this year's review was issued on May 10, 2004.

2.2 As in prior years, our audit of the Province's March 31, 2004 consolidated financial statements will be completed in two phases. The target deadline for the completion of our audit work is September 23, 2004. The scheduled date assumes year-end accounting and audit readiness requirements are met.

2.3 The April 22, 2004 Budget Address and supporting documents disclosed information on accounting and other changes planned. This additional information is a significant improvement over last year, and should assist users to better understand the comparative information provided on government's fiscal plans and performance.

2.4 In light of the updated net debt projections included in the April 22, 2004 Budget Address which include the retirement health benefit obligations, the June 11, 2003 debt reduction plan information on the government's website should be updated or removed. In its current form, the plan on the website is incomplete, not compliant with generally accepted accounting principles (GAAP), and could be misleading.

2.5 Additional appropriations for 2002-03 of $65,928,537 for program expenses and $3,093,000 for sinking fund installments and serial retirements were approved on January 23, 2004 by Order in Council 2004-13. No special warrants have been approved since our last Report.

2.6 Government's decision to ensure generally accepted accounting principles are followed in all of its financial information and reporting is acknowledged. Appropriate and continued implementation of this decision should contribute significantly to the quality of government's financial reporting.

2.7 Our recommendations to government from this chapter are as follows:

Recommendation 2.1

We recommend the economic assumptions and estimated revenues for each line item be developed after the Executive Council has approved planned revenue and spending decisions for the coming year and the impact of those decisions be incorporated into the development of the economic assumptions and the revenue line items.

Recommendation 2.2

We recommend all assumptions used in the development of the revenue estimates be approved by the Executive Council.

Recommendation 2.3

We recommend that the processes and practices for measurement and recognition of tax and other revenue transfers from the federal government be reviewed to ensure they are the most appropriate.

Recommendation 2.4

We recommend that government, where possible, identify required and planned accounting changes to the House in advance of the start of the fiscal year in which they will be implemented.

Recommendation 2.5

We recommend that government news releases on its financial reports and reporting be factually correct, complete and accurate.

Government Systems and Control

Page 15-22

3.1 Government, with specific leadership from the Department of Finance, is taking action or has plans to address the Corporate Financial Management System (CFMS/SAP) control concerns raised in our 2003 Report.

3.2 An independent audit commissioned in 2003-04 by new senior management at Finance indicated, in our view, that there had been inadequate due regard for economy and efficiency for the pension administration system implementation project. This project commenced in 1998, is four years overdue, and has incurred costs of more than three times the original budget.

3.3 The results of the annual independent audit of control procedures in place for processing on government's large mainframe computer systems provide reasonable, but not absolute, assurance on the adequacy of controls. The audit deals with control procedures at a specific point in time, and only those that are the responsibility of the contracted service organization. There are significant matters not covered by the audit which are government's specific and direct responsibility.

3.4 An independent consultant's report issued in December 2003 on a review of government's procurement processes identified a number of recommendations for improvement.

3.5 The House of Assembly and the Executive Council have significant roles to perform in monitoring the level of control over the use of public funds and resources. Increased reporting

on controls by government management against established and recognized standards or framework should be considered.

3.6 In the recent past, there has been a great deal of public and media attention on matters reported to the Parliament of Canada about the controls and other activities related to the Federal "sponsorship" program. The magnitude of such matters, in relative terms, in Nova Scotia equates to less than $1 million per year. The question that needs to be asked is whether Nova Scotia's public sector management and control systems and processes are sufficient to prevent or detect such issues.

3.7 Good systems and controls are costly, while too many or less than optimized controls can also be costly. Government's challenge is to ensure that the risks of loss or misuse are appropriately identified and that decisions made about the level of control to be in place appropriately mitigate risks on a cost-benefit basis. The goal is not more or too many controls, but rather cost-effective optimization of control against risks.

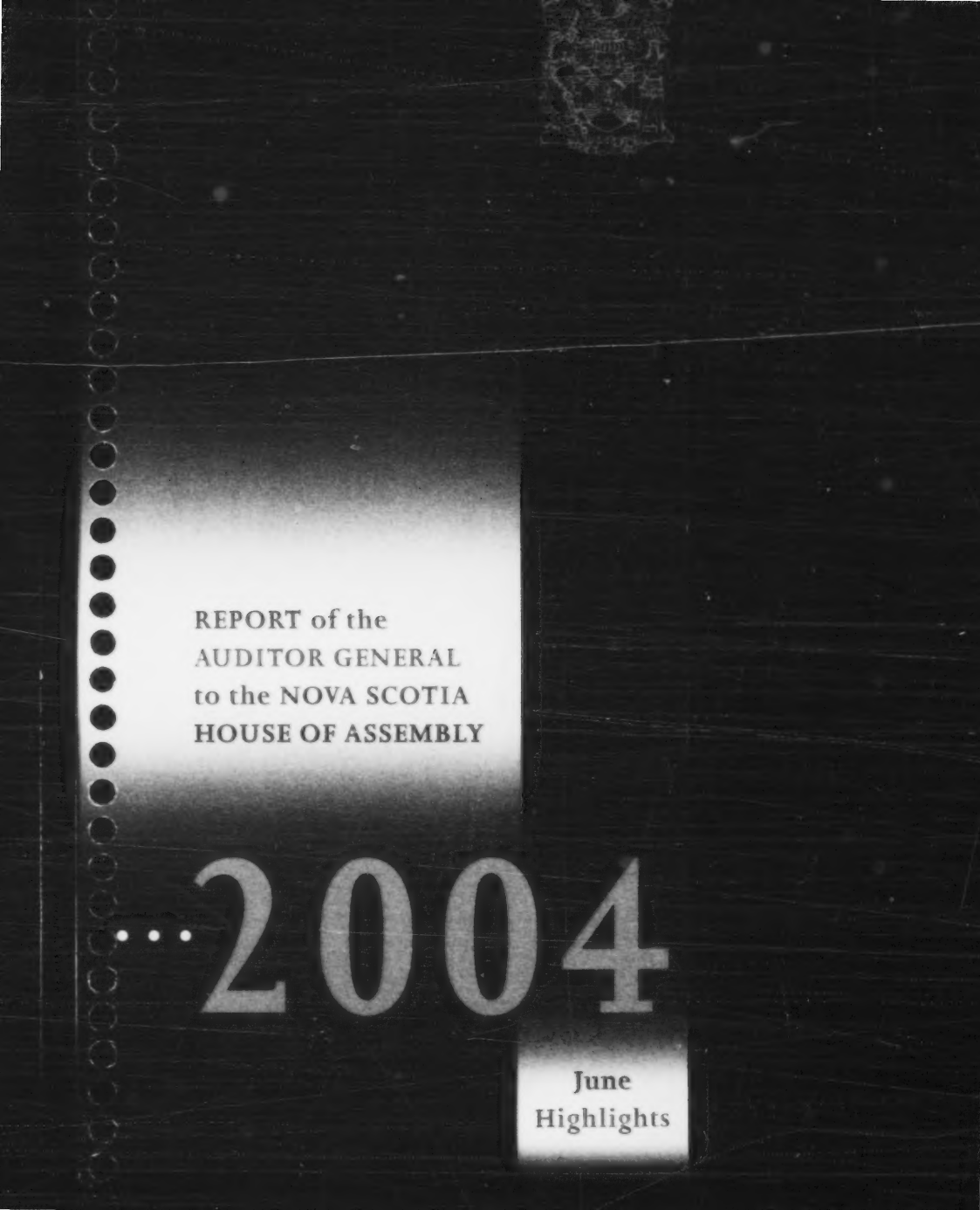
3.8 Our recommendations to government from this chapter are as follows:

Recommendation 3.1

We recommend government ensure adequate, cost-effective controls exist and operate for the Corporate Financial Management System and its other SAP systems.

Recommendation 3.2

We recommend the pension administration system implementation project be reviewed by the Trustee to ensure costs charged to the pension plans are fair and reasonable.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Recommendation 3.3

We recommend government consider increased use of independent service audit arrangements to ensure data processing service providers have adequate functioning controls in place.

Recommendation 3.4

We recommend government assess the adequacy of its own control procedures associated with data processing service provider arrangements.

DEPARTMENT AUDITS

• • Education

Halifax Regional School Board - Follow-up to 2000 Audit

Pages 24-41

4.1 The Halifax Regional School Board (HRSB) has successfully implemented the recommendations made in our 2000 Report in the area of budgeting and financial management.

4.2 HRSB is generally in compliance with the legislation and policies dealing with the accountability relationship between HRSB and the Department of Education. However, some required documents were submitted to the Department after the deadline.

4.3 Regional School Board financial statements are prepared in accordance with accounting policies specified by the Department of Education and do not comply with generally accepted accounting principles in certain areas. For the March 31, 2004 financial statements,

the auditors' reports are expected to reflect recent changes to the CICA Handbook and will likely indicate that the financial statements are prepared for the Department of Education and not intended to be used by anyone other than the specified users or for any other purpose. The lack of compliance with generally accepted accounting principles reduces the value of the school board financial statements to the House of Assembly and the general public.

4.4 One of the major differences between generally accepted accounting principles and the current HRSB financial statements is in the reporting of Reserve Funds. During 2001-02, HRSB established two new Reserve Funds. As at March 31, 2003 the reserves had balances of $0.5 million and $2.6 million, respectively. Transfers from operations to these reserves were included as deductions on the Consolidated Statement of Operations and resulted in the Board's recording of breakeven results rather than the surplus which would have otherwise been recorded. HRSB intends to make a change to the accounting disclosure in its 2004 financial statements to remedy this.

4.5 A new financial system (SAP R/3) has been successfully implemented at the Regional School Boards including HRSB and a new SAP-based human resource and payroll system is in the developmental stage with planned implementation in August 2004. The Board is working towards improving the reports generated by the financial system.

4.6 The new financial system for all school boards is processed on a single server which is hosted by the Province. In the 2003 Report of the Auditor General, we recommended that there was a need for the school boards, and the Departments of Education and Finance, to make arrangements

for an annual audit of the data processing operation for the financial management system. A September 2003 management letter from the external auditors to HRSB includes a similar recommendation. The purpose of such an audit would be to eliminate duplication of audit effort by the financial statement auditors of all regional school boards using the system.

4.7 Supplementary Funding for the Halifax Regional School Board is a historical legacy which requires extensive administrative effort and leads to unequal funding and program offerings in the three former municipal units comprising the Board. Legislative change may be required if the Board is to move towards becoming a single, cohesive unit.

4.8 Our recommendations from this audit are as follows:

Recommendation 4.1

We recommend that the Regional School Boards (RSBs) continue to request annual and multi-year funding targets from the Province prior to commencement of the fiscal year. This would facilitate Board approval of final budgets before the start of the fiscal year.

Recommendation 4.2

We recommend that the Halifax Regional School Board start the forecasting process by the end of the first quarter of the fiscal year.

Recommendation 4.3

We recommend that the Department of Education and HRSB ensure that the level of achievement

of performance targets and outcome measures is reported in the RSB business plans.

Recommendation 4.4

We recommend that the Department of Education and School Boards work towards establishing Generally Accepted Accounting Principles as the basis of accounting for Regional School Boards.

Recommendation 4.5

We recommend that the Halifax Regional School Board continue discussions with the Departments of Education and Finance with a view towards obtaining a service organization audit opinion on the data processing operation.

Nova Scotia Community College - Internal Control and Financial Management

Pages 42-62

5.1 Our audit of the internal control environment over revenues and payments indicated that controls in most areas we tested were adequate. However, we identified two significant control weaknesses. Monthly bank reconciliations need to be prepared and approved, and controls over blank and printed cheques need to be improved. Outstanding monthly bank reconciliations are now being completed.

5.2 Procedures for the identification and collection of outstanding student account balances should be improved.

5.3 The College has a strong internal audit function. However, management needs to ensure that findings from internal audit reports have been appropriately addressed.

5.4 Generally, procurement transactions tested were in compliance with applicable procurement policies although instances of possible non-compliance were noted. In several instances, documentation of the public tendering process had not been kept. We also noted exceptions to the policy where the rationale should have been documented more clearly and properly approved.

5.5 Although the College has a strategic plan and the Board monitors financial results and key performance indicators, we believe that preparation of a formal business plan and distribution to key stakeholders such as the Department of Education and students would strengthen accountability for public funds. It would also serve to document agreement on annual objectives and expected outcomes.

5.6 The process used for development of the College's budget was generally adequate although we noted a lack of documentation of assumptions and supporting calculations for the utilities budget.

5.7 Building condition assessments conducted on Provincial campuses indicate that the College faces a significant short-term deferred maintenance problem that requires the immediate attention of management and the Province.

5.8 The College's governance function is well developed and includes several elements which we believe should be considered best practices. The accountability relationship between the Province and the College is established by the Community Colleges Act. As the College continues to grow and mature, the Province and the College should review and update the accountability provisions to ensure they remain relevant.

5.9 The majority of the findings from our 1999 audit have been adequately addressed although there are still some significant findings which have not been acted upon by the College and the Department of Education. These include the need for a funding methodology, outcome measures and an agreement between the College and the Province on ownership and use of the buildings. We note that financial responsibility for deferred maintenance is a key issue that will need to be settled before building ownership can be resolved.

5.10 Our recommendations from this audit are as follows:

Recommendation 5.1

We recommend that the College prepare monthly bank reconciliations approved by management and that the physical security over blank and printed cheques be improved. We also recommend that the College's student accounts receivable reconciliation problems be addressed.

Recommendation 5.2

We recommend that the College improve its process for identifying students with accounts in arrears.

Recommendation 5.3

We recommend that the College develop formal policies governing the safeguarding of personal computers and related equipment and, for systems maintained internally, the backup of data files and disaster recovery.

Recommendation 5.4

We recommend that the College ensure that internal audit recommendations are addressed in a timely manner.

Recommendation 5.5

We recommend that the College document the rationale for exempting specific purchases from compliance with policy. All exceptions should be formally approved by appropriate management. The College should also maintain evidence of public tendering.

Recommendation 5.6

We recommend that the College prepare an annual business plan which links to the strategic plan and budgets approved by the Board and includes the College's key performance indicators. Business plans should set out operational priorities for the year and related financial information. These plans should be approved by senior management of the College and the Board.

Recommendation 5.7

We recommend that the Department of Education formally notify the College of its funding prior to the beginning of the fiscal year, and that the Department strive to establish a longer-term funding commitment.

Recommendation 5.8

We recommend that the College ensure that the assumptions and calculations supporting the utilities budget are appropriately documented.

Recommendation 5.9

We recommend that the College develop a system to track the status of high priority building deficiencies and that the College and Departments of Education and Transportation and Public Works develop a plan to address deferred maintenance.

• • Health

District Health Authorities 1, 2 and 3 - Shared Administrative Services

Pages 63-75

6.1 External consultants were engaged to review all shared services. Many of the recommendations of the shared financial services reviews have been implemented and the status of implementation has recently been reported to the District Health Authority (DHA) Boards. Generally, the reviews reaffirm the advantages and economies to be achieved through a shared services approach and that a move away from this concept would not be advantageous. We saw evidence that staff and management are also committed to the concept of shared financial services.

6.2 We recommend that the DHAs finalize the shared services agreement and that it include clearly defined responsibilities, and service or performance standards with provisions for required reporting on achievement.

6.3 Our audit of the financial management area indicated that the DHAs have implemented reasonable processes for business planning, budgeting and periodic monitoring.

6.4 Business plans and funding levels for fiscal 2003-04 were continually updated by the Department of Health and not finalized until

December 2003 - after 75% of the fiscal year had expired. Funding levels and business plans should be confirmed prior to commencement of the fiscal year to ensure that proper planning can occur.

6.5 During 2003-04, the DHAs entered into medical equipment leases for endoscopes. We understand that this type of arrangement is becoming more prevalent in the acute care sector as entities search for ways to replace aging capital equipment in an environment of scarce capital funds. Because the DHAs follow accounting principles for not-for-profit organizations, which are not entirely consistent with government accounting principles, there is a need to carefully analyze the accounting treatment for leases under both sets of accounting principles to ensure they are properly reflected in the financial statements of the DHAs and the government's consolidated financial statements. The Departments of Health and Finance are currently seeking information from all DHAs to determine the nature and extent of leased equipment transactions.

6.6 Although materiel management has formal policies, there is no reference to the processes to be followed when there are exceptions to the usual competitive process. Approval and documentation of such exceptions are necessary to ensure that there is compliance with the spirit of the government procurement policy throughout the DHAs.

6.7 Our recommendations from this audit are as follows:

Recommendation 6.1

We recommend that the shared services agreement be finalized and that it include service or

performance standards with provisions for required reporting on achievement.

Recommendation 6.2

We recommend that the DHAs and the Department of Health review the allocation methodology for expenses related to shared services to ensure that direct costs are borne by the DHA which receives the benefit of the service.

Recommendation 6.3

We recommend that funding levels, business plans and budgets should be approved by DOH prior to commencement of the fiscal year.

Recommendation 6.4

We recommend the completion of a financial policy manual including policies surrounding the business planning and budget preparation process and periodic monitoring. Policies should include a quality assurance process for the budget.

Recommendation 6.5

We recommend that all proposed lease transactions be thoroughly analyzed by DHA management to determine due regard for economy and efficiency, compliance with government legislation and policies, and appropriate accounting treatment in the financial statements of the DHA and the government's financial statements.

Recommendation 6.6

We recommend the DHAs draft additional procurement policies which comply with the *Government Procurement Process - ASH Sector*. These should include a policy on alternative procurement practices and a records retention policy.

• • Tourism, Culture and Heritage

Audit of Selected Aspects of Operations

Pages 76-91

7.1 The accountability framework for the Department of Tourism, Culture and Heritage is adequate and the Department complies with government reporting requirements.

7.2 The Tourism Division has adequate procedures in place to ensure resources used in the administration of its programs are managed with due regard for economy and efficiency. There are some weaknesses in the administration and enforcement of the Tourist Accommodations Act and Regulations. The Culture Division has appropriate administrative and accountability procedures for its investment programs.

7.3 The audit criteria used to assess the accountability function of the Department were met.

7.4 The goals and objectives of the Tourism Division are integrated with those of the Department and are closely aligned with the tourism strategy and annual plans developed through the Nova Scotia Tourism Partnership Council.

7.5 Systems to monitor, measure and report performance of the Tourism Division are

adequate. The economic model used to calculate the impact of tourism on the Provincial economy should be reviewed and updated for any changes to the underlying assumptions.

7.6 The Department entered into three major contracts following open tendering processes. Responsibilities for overseeing the contracts are clearly assigned within the Tourism Division. The Division should consider initiating periodic audit and other verification processes as provided for in the contracts.

7.7 The licensing and inspection system and practices, mandated by the Tourist Accommodations Act, should be reviewed. Policies should be established for determining frequency of inspections and improving compliance with licensing requirements. Improvements should be made to file documentation.

7.8 The Culture Division has established policies and procedures for selecting and distributing investment funding. We noted a weakness in monitoring receipt of final reports and that certain funding decisions were made outside the established processes.

7.9 Our recommendations to government from this audit are as follows:

Recommendation 7.1

We recommend that the Department review the economic model used to calculate the impact of tourism on the Provincial economy to ensure the underlying assumptions and factors are still valid.

Recommendation 7.2

We recommend that the Department consider initiating periodic audit and other verification processes as provided for in the management agreements as part of its oversight and due diligence in managing the agreements.

Recommendation 7.3

We recommend that the Tourism Division review its licensing and inspection system and practices, consider establishing a risk-based approach for determining the frequency of inspections, and establish file documentation standards and a file quality assurance review process.

Recommendation 7.4

We recommend that the Tourism Division review its practices concerning unlicensed establishments and establish a process for improving compliance with the licensing requirements.

Recommendation 7.5

We recommend that the Culture Division continue to develop its database to include information on receipt of final reports. This would help ensure recipients are held accountable for investment funds received before any new funding is considered.

• • Transportation and Public Works

Public Safety Communications Program Office

Pages 92-98

8.1 The Public Safety Communications Program Office has an appropriate capital asset acquisition process in place. However, the acquisition of the Trunked Mobile Radio (TMR) network occurred before the formation of the Program Office. Upon examining the acquisition of this network, we noted that a central government directive required that it be acquired by way of an operating lease. This was not supported by a comprehensive analysis of the costs and benefits or risks and rewards of an operating lease versus other procurement alternatives.

8.2 The Public Safety Communications Program Office conducted technical assessments and implemented performance monitoring procedures after the implementation of the TMR network. We recommended a more formal post-implementation evaluation process for major systems to determine the extent to which benefits have been realized and to compare financial and operational results to original plans.

8.3 Records relating to commercial users of the Nova Scotia Integrated Mobile Radio System were inherited from another Provincial department and are incomplete. The largest user of the system was not charged for its use for approximately ten years, until the situation was corrected in 2003. There are limited formal agreements with some other commercial users and rates charged to these users are below market rates.

8.4 The Public Safety Communications Program Office has appropriate asset management practices to control the performance and safekeeping of its equipment. However, we observed weaknesses in its asset inventory listing for the Nova Scotia Integrated Mobile Radio System.

8.5 The Public Safety Communications Program Office has adequate systems for acquiring, maintaining and protecting its capital assets. However, due to a lack of documented analysis to support the directive to pursue an operating lease, the absence of a settlement of the contract dispute and the lack of a formal post-implementation evaluation, we are unable to conclude whether or not the TMR network represents value-for-money in both the short and long term for the Province.

8.6 Our recommendations to government from this audit are as follows:

Recommendation 8.1

We recommend that the acquisition of capital assets be supported by comprehensive analysis of the costs and benefits and risks and rewards of identified alternatives. The most economical alternative which meets user needs should be selected. The accounting treatment of the transaction should not be a determinant in negotiating capital acquisitions.

Recommendation 8.2

We recommend that the Public Safety Communications Program Office's processes include a requirement for a formal post-implementation evaluation for major systems.

Recommendation 8.3

We recommend that Transportation and Public Works implement a process to ensure there are formal agreements with all commercial users which are reviewed on a regular basis. The process should ensure rates charged are appropriate and all revenues due to the Province are collected on a timely basis.

Recommendation 8.4

We recommend that the capital asset management system of the Public Safety Communications Program Office include complete lists of capital assets under its control.

• • Transportation & Public Works & Service NS & Municipal Relations

Road Safety

Pages 99-117

9.1 The quality of public reporting of road safety information should be improved to include regular comprehensive, comparative reports on the status of road safety initiatives and progress toward road safety targets.

9.2 Recent information indicates that in 2001 Nova Scotia had the third lowest traffic fatality and injury rates of 13 Canadian jurisdictions.

9.3 The Department of Justice spends approximately $8.0 million on RCMP highway patrol, but does not have any outcome measures related to highway safety.

9.4 The Department of Justice's 2003-04 objectives, priorities and goals for the RCMP under the

Provincial Police Service Agreement contained only one item relating to highway patrol, and it was for a matter that had previously been substantially completed by the RCMP. The RCMP has adopted its own goals relating to road safety, but the Department of Justice does not require any reporting by the RCMP against the goals.

9.5 Several road safety initiatives recommended by Transport Canada and implemented in other jurisdictions were approved by the Road Safety Advisory Committee and the Deputy Ministers to which it is accountable. However, required legislative changes have not yet been pursued and the status of the initiatives has not been reported to the Committee.

9.6 There are methods to ensure the government complies with Provincial legislation and regulations pertaining to road safety. The government manages road safety issues through a multi-stakeholder committee, as well as various safety-related programs. However, we could not form a conclusion on the adequacy of the management systems employed. We could not review minutes for all meetings of the Road Safety Advisory Committee and for the committee of Deputy Ministers which oversee it. We encountered problems with data used by the government to manage road safety programs.

9.7 Our recommendations to government from this audit are as follows:

Recommendation 9.1

We recommend that regular comprehensive, comparative reports on the status of road safety initiatives and progress in achieving road safety targets be prepared and reported to the public.

Recommendation 9.2

We recommend that TPW publish its accountability reports on a more timely basis.

Recommendation 9.3

We recommend that public information on the status of road safety be comprehensive, comparable and provide credible information which is fairly presented.

Recommendation 9.4

We recommend that the Department of Justice include outcome measures related to highway safety in its business planning process.

Recommendation 9.5

We recommend that objectives, priorities and/or goals related to the traffic services component of the Provincial Police Service Agreement be communicated to the RCMP before the fiscal year begins. The targets should relate to expected future progress and achievement.

Recommendation 9.6

We recommend that the Province ensure all significant requirements of the Letter of Agreement with the RCMP on commercial vehicle enforcement are met.

Recommendation 9.7

We recommend that the Department of Justice request the RCMP to report progress relating to road

safety as it pertains to services the RCMP provide under the Provincial Police Service Agreement. The Department should also ensure that all reporting requirements of the Provincial Police Service Agreement are met.

Recommendation 9.8

We recommend that TPW resolve the problems with the accuracy and timeliness of the collision rate books and use the information to determine road sections with high collision rates.

Recommendation 9.9

We recommend that minutes be prepared, approved and retained for all meetings of the Road Safety Advisory Committee, its sub-committees and its Deputy Minister oversight committee.

Recommendation 9.10

We recommend that responsible departments report back to the Road Safety Advisory Committee on the status of initiatives which it has recommended.

Recommendation 9.11

We recommend that Road Safety Advisory Committee business plans be formulated and communicated to affected organizations and departments before the beginning of the fiscal year to which they pertain.

CROWN AGENCIES AND CORPORATIONS

Emergency Measures Organization of Nova Scotia

Pages 120-131

10.1 The Emergency Measures Organization has appropriate systems for assessing whether municipalities have emergency measures plans which comply with legislation. EMO also evaluates municipalities' general state of preparedness for emergencies and provides assistance to help municipalities improve plans.

10.2 There is an emergency plan in place for the Province. EMO has a process in place to collect and review departmental emergency plans, but not all of the plans have yet been collected and no assessments have been completed by EMO to date.

10.3 Provincial regulations require EMO to ensure important Provincial government services are continued in the event of a war-time emergency. No such requirement exists for a peace-time emergency and, based on our enquiries, there is no government organization ensuring that departments and agencies have up-to-date service continuity plans.

10.4 A lack of clarity regarding documentation required to support Provincial claims under the Federal disaster financial assistance program has caused delays in the Provincial government recovering assistance paid to individuals and organizations affected by disasters.

10.5 EMO has appropriate systems and controls to manage its capital assets. Various issues regarding EMO's command centre site have been raised by internal reviews and steps are being taken to address the more significant ones.

10.6 The E911 Cost Recovery Fund has insufficient procedures to ensure that all fees due from telecommunications companies are received by the Fund. The agreements with the companies contain provisions under which the companies' records can be audited, but no such audits have been performed.

10.7 Our recommendations to government from this audit are as follows:

Recommendation 10.1

We recommend that the Civil Emergency Planning Regulations be updated to include a process which ensures the continuity of government in both war and peacetime emergency situations. Responsibility for business continuity should be clearly and formally assigned.

Recommendation 10.2

We recommend that changes to Executive Council approvals for financial assistance programs be formally documented.

Recommendation 10.3

We recommend that all disaster financial assistance claim files include adequate support for the final decision on eligibility to ensure that assistance paid can be recovered on a timely basis from the Federal government.

Recommendation 10.4

We recommend that the capital acquisition process of the Emergency Measures Organization include a requirement for a formal post-implementation

evaluation when significant new systems are acquired.

Recommendation 10.5

We recommend that EMO management consult with officials of the Department of Finance and Treasury and Policy Board about including more information on the financial position and operations of the E911 Cost Recovery Fund in the public financial reporting of the Province.

Recommendation 10.6

We recommend the establishment of adequate controls to ensure all amounts due to the E911 Cost Recovery Fund are collected.

Recommendation 10.7

We recommend that the annual plans and budgets of the E911 Cost Recovery Fund be approved prior to the start of the fiscal year to which they relate.

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2004

June

104-05512/

REPORT of the AUDITOR GENERAL to the NOVA SCOTIA HOUSE OF ASSEMBLY

2004

June

Honourable Murray Scott
Speaker
House of Assembly

Sir:

I have the honour to submit herewith an additional Report to the House of Assembly under Section 9A(1) of the Auditor General Act, to be laid before the House in accordance with Section 9A(2) of the Auditor General Act.

Respectfully submitted

E R Salmon

E. ROY SALMON, FCA
Auditor General

Halifax, Nova Scotia
May 17, 2004

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Introduction

1 MESSAGE FROM THE AUDITOR GENERAL

INTRODUCTION

1.1 Under Section 9A(1) of the Auditor General Act, I have the mandate to issue two additional reports each year as well as special reports. These are in addition to the Annual Report which is traditionally tabled in December each year.

1.2 In past years I have issued special reports and I tabled an additional report in November 2003. This Report includes the results of audit work conducted since my December 2003 Annual Report and I anticipate that we will prepare and table similar semi-annual reports in future years.

1.3 The objective is to provide information to the House of Assembly on a more timely basis and allow the Public Accounts Committee to call witnesses and deal with matters while they are more current. Discussions with members of the Committee indicate they favour this approach.

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1.4 This Report contains nine chapters resulting from audit work conducted since my report of December 2003 up until early May 2004. Two of the chapters deal with government-wide financial matters, six deal with departmental programs and one with a crown agency.

1.5 Since this is a relatively shorter report than the Annual Report, I have not prepared either an overview or summary of significant findings. Essentially each chapter stands on its own. As in the past, I have issued a separate highlights volume

CONCLUSION

1.6 I trust this Report will be useful to members of the House of Assembly and I would welcome comments and reactions to the content and particularly the timing. I would also like to express my appreciation to my staff for their efforts in adapting to the demands of this process change.

Government-Wide Issues

2 GOVERNMENT FINANCIAL REPORTING

BACKGROUND

2.1 For Members of the Legislative Assembly (MLAs) to hold government accountable for its use and control of public funds and resources, they need adequate information on the Province's financial plans, performance and condition.

2.2 The Minister and Deputy Minister of Finance are, under the provisions of the Provincial Finance Act, assigned various authorities and responsibilities related to the role of a chief financial officer for the Province. Certain of these assignments include the need for Governor in Council (i.e., Executive Council) approval or ratification of planned actions.

2.3 The Provincial Finance Act defines a number of financial reporting requirements for the Minister or Deputy Minister of Finance to meet on behalf of government. These include the following requirements.

- Annual estimates (Section 7A)
- Interim reports on state of public finances (Section 8B, see also Section 77)
- Annual public accounts (Sections 9 and 10)
- Remission of tax, penalty or other debts (Section 19B)
- Additional appropriations (Section 28, see also Section 75)
- Special warrants (Section 29, see also Section 59D)
- Redemption or purchase of securities (Section 54)
- Financial transactions (Section 59B)
- Financial obligations (Section 59C)
- Consolidated fiscal plan (Section 82)
- Report on outcomes for fiscal year (Section 83)

2.4 Further, Section 73 of the Provincial Finance Act requires that crown corporation business plans, any proposed public financing and audited financial statements be tabled in the House of Assembly each year.

2.5 As a foreign registrant of the Securities and Exchange Commission (SEC) in the United States, or its equivalent in other countries, government must file required documents in order to be able to access financing or financial markets.

2.6 In addition to required financial reporting, government can and has periodically, at its discretion, released other financial information or reports (e.g., debt reduction plan) publicly.

RESULTS IN BRIEF

2.7 The following are our principal observations in this chapter.

- The Auditor General's opinion on the government's 2004-05 revenue estimates was qualified for the same reasons as the previous year. It was tabled April 22, 2004 as part of the Nova Scotia Budget publication (page A2). A management letter on this year's review was issued on May 10, 2004.

- As in prior years, our audit of the Province's March 31, 2004 consolidated financial statements will be completed in two phases. The target deadline for the completion of our audit work is September 23, 2004. The scheduled date assumes year-end accounting and audit readiness requirements are met.

- The April 22, 2004 Budget Address and supporting documents disclosed information on accounting and other changes planned. This additional information is a significant improvement over last year, and should assist users to better understand the comparative information provided on government's fiscal plans and performance.

- In light of the updated net debt projections included in the April 22, 2004 Budget Address which include the retirement health benefit obligations, the June 11, 2003 debt reduction plan information on the government's website should be updated or removed. In its current form, the plan on the website is incomplete, not compliant with generally accepted accounting principles (GAAP), and could be misleading.

- Additional appropriations for 2002-03 of $65,928,537 for program expenses and $3,093,000 for sinking fund installments and serial retirements were approved on January 23, 2004 by Order in Council 2004-13. No special warrants have been approved since our last Report.

SCOPE

2.8 The Auditor General Act provides broad mandates for the Office to examine and report on use and control of public funds or resources by government, its controlled entities, and recipients of financial assistance. Further, Sections 9 and 9B of that Act provide for specific annual coverage and reporting by the Auditor General on government's financial statements (audit - high assurance) and revenue estimates (review - moderate assurance), respectively. The Office is also required to review the Province's annual U.S. SEC filing documents.

2.9 The annual financial statements of various crown entities and trusts are, depending on statutory or other arrangements, audited and reported upon by the Auditor General or a public accounting firm. We consider these financial statement audits, as well as other government financial reporting, where appropriate during the conduct of the Office's discretionary broad scope assignments in selected areas each year.

2.10 The purpose of this chapter is to provide summary comments and observations on government's financial reporting, including information on the planning or results of the Office's examination of government's financial statements and revenue estimates.

PRINCIPAL FINDINGS

Review of Revenue Estimates

2.11 The Auditor General's reporting required under Section 9B of the Auditor General Act on the 2004-05 revenue estimates was tabled in the House on April 22, 2004 along with the supporting information for the 2004-05 Nova Scotia Budget. Exhibit 2.1 on page 14 is a copy of the Auditor General's Report on the 2004-05 Revenue Estimates. The Report is qualified for the same reasons as the previous year (i.e., non-consolidated basis, unable to determine impact of personal income taxes being estimated based on federal assumptions).

2.12 Subsequent to the conclusion of our review of the revenue estimates, we issued a management letter to Finance on May 10, 2004. That letter provided additional observations and comments from our review of the 2004-05 revenue estimates and other related information included in the Minister of Finance's April 22, 2004 Budget Address and supporting documents.

2.13 The following is a summary of selected matters and recommendations in the management letter.

- The summary of possible differences identified during our review net to an average understatement of $19.8 million, or 1/3 of 1% of the total ordinary revenue reviewed.

- The economic assumptions and the revenue line item estimates were developed by staff without direct knowledge of or information on government revenue and spending plans for 2004-05. Subsequently, once the 2004-05 revenue and spending plans were finalized, Finance senior management assessed their impact on significant transfer and taxes revenue line items received from the federal government.

- The government's values for economic assumptions were not used directly to estimate all revenue line items which should have used those values. In all such instances, except for the personal income tax revenue line, the impact of using other than government's values for economic assumptions could be assessed.

- Since 1994-95, net prior year adjustments (PYAs) totalling $740 million have been reported by government (approximately 1.5% of the total ordinary revenue reported for that timeframe). It must be acknowledged that PYAs will most likely be identified during 2004-05 for prior years and, with respect

to 2004-05 in future years, and that they could be significant individually or collectively. In this regard, further adjustments may be necessary to the PYAs for 2003-04 included in the budget documents as a result of new updated information that becomes available prior to the finalization of the Province's March 31, 2004 consolidated financial statements.

- This year's revenue estimates management letter included the following recommendations.

Recommendation 2.1

We recommend the economic assumptions and estimated revenues for each line item be developed after the Executive Council has approved planned revenue and spending decisions for the coming year and the impact of those decisions be incorporated into the development of the economic assumptions and the revenue line items.

Recommendation 2.2

We recommend all assumptions used in the development of the revenue estimates be approved by the Executive Council.

Recommendation 2.3

We recommend that the processes and practices for measurement and recognition of tax and other revenue transfers from the federal government be reviewed to ensure they are the most appropriate.

2.14 As part of our revenue estimates review, we refer to pronouncements of the Canadian Institution of Chartered Accountants (CICA), including those directed to management preparers of future-oriented financial information (FOFI). Each year, we notify Finance that the Department should ensure appropriate compliance with those pronouncements when preparing and presenting the revenue estimates. Comments raised in the House and at recent meetings of the Public Accounts Committee (PAC) lead us to suggest that not only should these pronouncements be more specifically considered by government with regard to revenue estimates, but also for other budget information provided by government. In this regard, we recommend the following in Chapter 3 (paragraphs 3.38, 3.41-3.43) of our 2001 Report.

> **3.38** *Information presented with or supporting the Estimates should be verifiable and free from material error or bias. Users of the information should be able to depend upon it to faithfully represent what it purports to represent and the information should be linked to and consistent with economic and program-related assumptions.*

3.41 *The information provided to the House along with the Budget Address could more completely identify the nature and extent of program changes or adjustments made as a result of decisions in the budget process. Financial budget information should be clearly linked and cross-referenced to program plans, including information provided on outcomes or targets.*

3.42 *We believe it is imperative for readers of the business plans and budget information to be able to clearly identify significant changes that result in the plans and budget being presented on a basis different than prior years. Government has an obligation to ensure sufficient, appropriate supporting information is available to MLAs, as a matter of course, to support the substance of budget debate in the House.*

3.43 *However, it is not possible for the Auditor General or government to anticipate all significant information needs of MLAs. In this regard, one option to consider could be an all-party committee of MLAs to identify basic requirements.*

2.15 In addition, we note that the inclusion of debt reduction provisions in the determination of the budgeted surplus for 2004-05 is not compliant with generally accepted accounting principles (GAAP). Such allocations or transfers do not represent program expenses or other charges to be included in the measurement of annual operating results under GAAP financial reporting.

Audit of Government's Financial Statements

2.16 Under Section 9 of the Auditor General Act, the Auditor General is mandated to examine and report on the government's annual consolidated financial statements. The government released the Province's March 31, 2003 consolidated financial statements on November 13, 2003 as part of Volume 1 of the Public Accounts. The Auditor General's opinion on those statements was unqualified.

2.17 On November 14, 2003, we released a special report on the results of our audit of the Province's March 31, 2003 consolidated financial statements and other financial reporting practices of government. Subsequently, the 2003 Report of the Auditor General, released on December 17, 2003, provided further summary observations and recommendations on government's financial and other reporting. We also issued a detailed management letter to Finance dated February 13, 2004.

2.18 In May 2004, Finance provided a detailed response to the matters reported as a result of our 2003 audit work. This response was thorough, identifying specific action taken or planned to address our observations and recommendations.

2.19 Professional standards require that the auditor of an entity with public accountability, like the Province, communicate with those having oversight responsibility for the entity's financial reporting process. For the Province's financial reporting by government, oversight responsibility rests, to a significant extent, with the Executive Council. In addition, the House of Assembly, including its Public Accounts Committee, has an important role in the oversight and public accountability processes for the Province's financial reports issued by government.

2.20 In accordance with the professional standards referred to above, the Office of the Auditor General's 2003 Performance Report and 2004 Business Plan publication (issued March 31, 2004) included comments on the independence of the Auditor General position from government as well as on the professional conduct rules and standards adhered to by the Office.

2.21 We issued a letter to Finance on March 5, 2004 which included a list of information, schedules, documentation and other readiness requirements to be met by government management and accounting staff to facilitate the timely and cost-effective completion of the audit of the Province of Nova Scotia for the fiscal year ending March 31, 2004.

2.22 As in prior years, the audit of the consolidated financial statements is to be completed in two phases. Most of the work for the first phase, focusing on the core government consolidated fund accounting balances, is scheduled to start May 25th, with an interim exit meeting scheduled for July 15th. The second phase is the work on the draft consolidated financial statements, which are to be available for audit by August 16th.

2.23 Based on experience in prior years, certain areas have been identified where Finance's Government Accounting Division has agreed to focus additional attention. The Division will also increase quality assurance processes, on the information provided by departments and agencies, in order to reduce the risk of errors in the draft financial statements and improve the efficiency of the year-end accounting and auditing processes. These areas for increased attention include, for example:

- the federal-provincial accounts receivable/payables and accruals by revenue line item and by year;
- the closure and clean-up provision balance(s) for SYSCO;
- the year end accruals and accrued balances of departments;
- the commitments and contingencies of departments; and
- the restructuring costs and accruals.

2.24 The target deadline for the completion of our audit of the consolidated financial statements is September 23, 2004. The scheduled date assumes year-end accounting and audit readiness requirements are met on a timely and appropriate basis.

2.25 Generally accepted accounting principles (GAAP) are not static. Standard setters in Canada and internationally continue to develop new or revised pronouncements in important areas. This is true for the CICA Public Sector Accounting Board (PSAB) which is the primary body issuing recommendations on public sector accounting

in Canada. The following are the more significant matters in progress at PSAB or on which it has recently released final or draft pronouncements:

- financial statement discussion and analysis;
- government transfers;
- liabilities, contingent liabilities and contractual obligations; and
- GAAP hierarchy.

2.26 New formal recommendations or guidance in these areas could require changes to government's financial reporting in the future.

Recommendation 2.4

We recommend that government, where possible, identify required and planned accounting changes to the House in advance of the start of the fiscal year in which they will be implemented.

2.27 Government, primarily through management of the Department of Finance, is responsible for preparation of the Province's consolidated financial statements. This includes responsibilities related to internal control, such as designing and maintaining accounting records, selecting and applying accounting policies, safeguarding assets, preventing and detecting error and fraud, and being aware of circumstances that could result in fraudulent financial reporting.

2.28 The Auditor General's responsibility is to express an opinion on the consolidated financial statements. The opinion is based on our audit which is performed to obtain reasonable, but not absolute, assurance as to whether the financial statements are free of material misstatement. Due to the inherent limitations of an audit, there is an unavoidable risk that some misstatements of the March 31, 2004 consolidated financial statements will not be detected even though the audit is properly planned and performed.

2.29 In conducting our audit, we will obtain a sufficient understanding of the systems and controls to plan the audit. Where we intend to rely upon controls, sufficient audit evidence will be obtained to support that assessment. However, the scope of our review of government's systems and controls during the audit of the March 31, 2004 consolidated financial statements will not be sufficient to conclude on the adequacy of the overall level or quality of controls.

2.30 The financial statements of various crown corporations and agencies of government are audited by other auditors. As appropriate under generally accepted auditing standards, we will rely on the work and reporting of these other auditors.

2.31 The Auditor General will express an opinion as to whether the financial statements present fairly, in all material respects, the financial position, results of operations and cash flows of the Province of Nova Scotia in accordance with Canadian generally accepted accounting principles for the public sector. Our audit will be carried out in accordance with Canadian generally accepted auditing standards.

2.32 The concepts of materiality and audit risk are implicit in the wording of the standard auditor's report. It is intended to communicate, amongst other items, that the amounts included in the financial statements are not necessarily precise and that the audit does not provide absolute assurance that the financial statements are not materially misstated. In this regard, as noted, we seek reasonable assurance that the financial statements as a whole are not materially misstated. Government is responsible for maintaining accurate books and records, and the expectation is that non-trivial errors will be corrected.

Other Matters

2.33 Disclosure of accounting changes - Our November 14, 2003 report on government's financial reporting practices raised significant concerns about Finance's adherence to generally accepted accounting principles (GAAP) when issuing non-financial statement financial reports and information.

2.34 Government's financial reporting in spring 2003, on required and planned accounting changes to account for pensions and retirement health benefit costs and obligations as at March 31, 2003 and beyond, was incomplete and inadequate. Budget documents released on April 3, 2003 and the debt reduction plan released on June 11, 2003 did not reflect all of the costs and obligations associated with these changes, or the comparative impact of changes on prior period information.

2.35 On June 30, 2003, after we formally communicated our concerns (which had previously been noted in April 2, 2003 correspondence to the Minister) to the Minister of Finance and the Premier's office, government announced its intentions to implement GAAP compliant accounting as at March 31, 2003 to recognize its retirement benefit costs and obligations.

2.36 In accordance with GAAP, those changes, including the retroactive impact on the prior period comparative information, were reflected in the Province's March 31, 2003 consolidated financial statements released by government on November 13, 2003.

2.37 In December 2003, government indicated that recommendations in our November 14th special report would be addressed. We acknowledge that on March 30, 2004, Finance announced that it was implementing changes to its tangible capital asset accounting effective for 2003-04. The announcement provided descriptive information on the various changes being implemented and their impact on the 2003-04 results. We will complete an examination of these changes as part of the audit of the March 31, 2004 consolidated financial statements.

2.38 We also acknowledge that the April 22, 2004 Budget Address and supporting documents disclosed information on accounting and other changes planned. This additional information - on page B4 of the Budget Address - is a significant improvement over last year, and should assist users to better understand the comparative information provided on government's fiscal plans and performance.

2.39 Debt reduction plan - When released on June 11, 2003, the debt reduction plan was not presented in accordance with GAAP. The total net direct debt of $11.7 billion as at March 31, 2003 would have been $12.2 billion had the government's retirement health benefit obligations been included in accordance with GAAP. This concern was brought to Finance's attention at various times, formally and informally, during 2003.

2.40 After comments made at the December 3, 2003 Public Accounts Committee meeting, the Deputy Minister of Finance undertook to ensure that the debt reduction plan was updated to reflect the additional obligations. Finance dealt with this undertaking by adding the following note at the end of the version of the plan on the government's website.

> *"Addendum: Based on the 2002-2003 Public Accounts, released on November 13, 2003, the province's net direct debt is now at $12.2 billion, up from the $11.7 billion estimate in the April 3, 2003 budget."*

2.41 In light of the updated net debt projections included in the April 22, 2004 Budget Address which include the retirement health benefit obligations, the June 11, 2003 debt reduction plan information on the government's website should be updated or removed; since in its current form it is incomplete, not GAAP compliant, and could be misleading.

2.42 Government news release - While it is not normally the practice of this Office to comment on government news releases, representations made in a December 3, 2003 release titled *Nova Scotia Books Accurate and Fair*, issued subsequent to a PAC meeting on government's financial reporting, were very troubling to us.

2.43 For example, when commenting on our November 14, 2003 special report issue regarding accounting for retirement health benefit (RHB) costs and obligations, that release indicated the *"Department did not become aware that the timing of the accounting change was a serious issue for the Auditor General until June of this year."* This echoed comments made by Finance at the PAC meeting, but ignored the facts tabled at that meeting, including that on April 2, 2003 the Minister and Deputy Minister of Finance had been formally notified in writing that the decision to not fully account for RHB costs and obligations as at March 31, 2003 was not compliant with GAAP.

2.44 As a result, it is still our view that the government had been told, and should have known, that the net debt total of $11.7 billion reflected in its June 11, 2003 debt reduction information should have been $12.2 billion as at March 31, 2003 in order to be GAAP compliant as government had represented when the plan was released.

Recommendation 2.5

We recommend that government news releases on its financial reports and reporting be factually correct, complete and accurate.

2.45 Additional appropriations and special warrants – Section 9A of the Auditor General Act requires, among other things, that we call attention to every case observed in which any appropriation is exceeded or a special warrant is authorized. Our last reporting under that section was in the 2003 Report of the Auditor General, chapter 16. We now provide the following updated comments.

2.46 Under the provisions of Section 28 of the Provincial Finance Act, on January 23, 2004 the Executive Council approved Order in Council 2004-13 putting in place additional appropriations for 2002-03 of $65,928,537 for program expenses and $3,093,000 for sinking fund installments and serial retirements. The tabling in the House, required within 15 days of the above OIC under that Section, was outstanding at the time this chapter was drafted in early May 2004.

2.47 As per the 2003-04 forecast information released with the Minister of Finance's April 22, 2004 Budget Address, subject to year-end accounting or audit adjustments, additional spending authority (additional appropriations) will need to be approved by OIC within 90 days of the government's release of the March 31, 2004 consolidated financial statements.

2.48 We note that since our last Report, there have been no special warrants approved by the Executive Council under Section 29 of the Provincial Finance Act.

CONCLUDING REMARKS

2.49 Government's decision to ensure generally accepted accounting principles are followed in all of its financial information and reporting is acknowledged. Appropriate and continued implementation of this decision should contribute significantly to the quality of government's financial reporting.

Exhibit 2.1

Report of the Auditor General to the House of Assembly on the Estimates of Revenue for the Fiscal Year Ending March 31, 2005 used in the preparation of the April 22, 2004 Budget Address

I am required by Section 9B of the Auditor General Act to provide an opinion on the reasonableness of the estimates of revenue used in the preparation of the annual budget address of the Minister of Finance to the House of Assembly.

The estimates of revenue for the fiscal year ended March 31, 2005 (the 2004-05 revenue estimates) are the responsibility of the Department of Finance and have been prepared by departmental management using assumptions with an effective date of March 1, 2004. I have examined the support provided by the department for the assumptions, and the preparation and presentation of the 2004-05 revenue estimates of $5,908,287,000 for total ordinary revenue. My opinion does not cover the budget address, the 2003-04 forecast, the 2004-05 spending estimates, sinking fund earnings, nor recoveries, user fees or other income netted for annual appropriation purposes. My examination was made in accordance with the applicable Auditing Guideline issued by the Canadian Institute of Chartered Accountants. I have no responsibility to update this report for events and circumstances occurring after the date of my report.

Commencing with the fiscal year ending March 31, 1999, the Government implemented consolidated financial statement reporting in accordance with Canadian generally accepted accounting principles for the public sector. Consistent with prior years, the 2004-05 revenue estimates have been presented including the total ordinary revenue of the Consolidated Fund established under the provisions of the Provincial Finance Act. As a result, sinking fund earnings and revenue of certain government organizations reported as revenue in the Province's consolidated financial statements are excluded from the 2004-05 revenue estimate for total ordinary revenue, but included elsewhere in the 2004-05 estimates, and have not been included in my examination.

The personal income taxes (PIT) revenue for 2004-05 was estimated based on national level taxable income and provincial share information determined by the federal government. The extent to which the economic and other assumptions used by the federal government to determine this information agrees to or differs from the Nova Scotia government's assumptions for 2004-05 has not been fully determined. As a result, the impact of any differences on the PIT estimate can not be adequately assessed.

Except for the effect of adjustments, if any, which might have been necessary as a result of the matters discussed in the preceding paragraphs, in my opinion,

- as at the date of this report, the assumptions used by the Department are suitably supported and consistent with the plans of the Government, as described to us by departmental management, and provide a reasonable basis for the 2004-05 revenue estimates; and
- the 2004-05 revenue estimates as presented reflect fairly such assumptions.

Since the 2004-05 revenue estimates are based on assumptions regarding future events, actual results will vary from the information presented and the variations may be material. Accordingly, although I consider, except for the matters discussed above, the 2004-05 revenue estimates to be reasonable, I express no opinion as to whether they will be achieved.

(original signed by)
E. R. Salmon, FCA
Auditor General

Halifax, Nova Scotia
April 19, 2004

3 GOVERNMENT SYSTEMS AND CONTROLS

BACKGROUND

3.1 Government financial, program and other management activities are facilitated or supported by a variety of systems and control processes. These include a number of corporate or government-wide systems (e.g., Corporate Financial Management System - CFMS/SAP; Human Resources Management System - HRMS) or processes (e.g., annual business planning, budgeting and accountability reporting; procurement). There are also numerous entity or program level systems and processes.

3.2 Government's business systems and technology initiatives are subject to oversight review by the Business Technology Advisory Committee (BTAC). Initiatives within crown entities are also overseen by the respective governing board or other appropriate body.

3.3 Although not specifically quantified, the costs of acquiring, implementing, operating and maintaining systems and control processes within the Provincial public sector would be significant. However, a more important factor is the quality and cost-effectiveness of the systems and control processes in mitigating financial and other risks of managing government programs and services.

RESULTS IN BRIEF

3.4 The following are our principal observations presented in this chapter.

- Government, with specific leadership from the Department of Finance, is taking action or has plans to address CFMS/SAP control concerns raised in our 2003 Report.
- An independent audit commissioned in 2003-04 by new senior management at Finance indicated, in our view, that there had been inadequate due regard for economy and efficiency for the pension administration system implementation project. This project commenced in 1998, is four years overdue, and has incurred costs of more than three times the original budget.
- The results of the annual independent audit of control procedures in place for processing on government's large mainframe computer systems provide reasonable, but not absolute, assurance on the adequacy of controls. The audit deals with control procedures at a specific point in time, and only those that are the responsibility of the contracted service organization. There are significant matters not covered by the audit which are government's specific and direct responsibility.

- An independent consultant's report issued in December 2003 on a review of government's procurement processes identified a number of recommendations for improvement.

- The House of Assembly and the Executive Council have significant roles to perform in monitoring the level of control over the use of public funds and resources. Increased reporting on controls by government management against established and recognized standards or framework should be considered.

SCOPE

3.5 The Auditor General Act provides broad mandates for the Office to examine and report on the use and control of public funds or resources by government, its entities, and recipients of financial assistance. For example, Section 8 of that Act indicates that we may examine whether:

- accounts have been faithfully and properly kept;

- all public money has been fully accounted for, and the rules and procedures applied are sufficient to secure an effective check on the assessment, collection and proper allocation of the capital and revenue receipts;

- money which is authorized to be expended by the Legislature has been expended without due regard to economy or efficiency;

- money has been expended for the purposes for which it was appropriated by the Legislature and the expenditures have been made as authorized; and

- essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public property.

3.6 The purpose of this chapter is to provide summary observations and information on the government's systems and control processes in order to assist the House of Assembly, and its Public Accounts Committee, to hold government accountable for the adequacy of systems and controls over the use of public funds or resources. Other chapters of this Report may also include related observations as a result of audit examinations in specific areas or entities.

PRINCIPAL FINDINGS

CFMS and SAP Control Initiatives

3.7 The 2003 Report of the Auditor General (Chapter 3) included the results to date of our examination of selected aspects of the government's SAP central financial management system (CFMS). We identified a number of significant control concerns and 20 specific recommendations for consideration by Finance

management. Certain of those recommendations require consideration on a government-wide basis, not just by Finance.

3.8 Finance management have committed to addressing the control concerns reported, and undertook to develop an action plan to identify and assess alternatives for each of our recommendations. On March 3, 2004, Finance management tabled a summary analysis of the status of action taken or planned, on the concerns we reported, with the Public Accounts Committee. The Department's plans include arranging for an annual service auditor report on controls for the centralized SAP infrastructure and support functions performed by Finance for a number of public sector entities.

3.9 A steering committee was established in April 2004 to oversee the action taken or planned to address our recommendations and other relevant matters. The Director of Finance's Corporate Information Systems (CIS) division will be reporting regularly to this committee on planning of the remediation efforts as well as the execution of those efforts.

3.10 On a related matter, a separate audit of aspects of the SAP implementation in school boards was completed in March 2003 by an external firm with support from government's Corporate Internal Audit Division. A final report dated January 5, 2004 was titled *Nova Scotia School Boards - Post Implementation Review of System Access Controls*. That report included several recommendations to improve controls, especially in relation to segregation of duties for this new SAP system implementation.

Recommendation 3.1

We recommend government ensure adequate, cost-effective controls exist and operate for CFMS and its other SAP systems.

Pension Administration System

3.11 In 1998, Finance's Pension Services Group (PSG) undertook to implement a new pension administration system as a result of a reorganization of the PSG which brought together the administration of the Nova Scotia Teachers' Pension Plan and the Public Service Superannuation Plan. There was also a need for a system that would be Year 2000 compliant.

3.12 A request for proposals was issued in January 1998 for a vendor to provide a new system. PSG originally wanted the new system implemented by March 31, 2000. The original project budget was estimated as $1,208,000. Although elements of the planned system are being used by PSG, the project is still in process because there are identified system deficiencies and outstanding deliverables.

3.13 During 2003-04, the new Executive Director of the PSG approached Corporate Internal Audit to audit the project implementation. Corporate Internal Audit in turn contracted a public accounting firm to perform the requested audit.

3.14 The objectives of the audit were to identify whether the:

- project had clearly defined objectives, responsibilities and ownership;
- costs and benefits were clearly determined and properly monitored;
- project was completed successfully in line with the plan, on time, and on budget; and
- procurement practices and processes at the time of contract award were followed.

3.15 The report from this audit, issued in March 2004, included serious findings related to the management and control of the project. Based on our review of the report and related information, in our view, there has been inadequate due regard for economy and efficiency in the new pension administration system implementation project.

3.16 The project is four years overdue and has incurred costs of more than three times the original budget. Information available indicates that the costs of the project to January 2004 exceed $4.5 million. This includes $4.4 million paid to the selected vendor (including costs of web-based functions not part of the original project scope), and $181,000 paid to consulting companies for project management services.

3.17 Since the release of the report in March 2004, the PSG Executive Director established a new steering committee to oversee the project's completion. As well, Finance started to define the remaining requirements to complete the project, including estimates of the associated costs.

3.18 The new system is intended solely for the administration of the pension plans. In our view, the Trustee of the plans should ensure that the project costs charged to them are fair and reasonable. For example, this would include determining whether the plans should bear all the additional costs incurred. In this regard, we note that the Trustee (i.e., the Minister of Finance) is also responsible for the government's Consolidated Fund which would have to bear any costs not charged to the plans.

Recommendation 3.2

We recommend the pension administration system implementation project be reviewed by the Trustee to ensure costs charged to the pension plans are fair and reasonable.

Provincial Data Centre Services

3.19 In the 1990s, government entered into contract arrangements to outsource its Provincial data centre processing requirements. Those arrangements require an annual audit by an independent auditor of the contracted service provider's control procedures for the resources used for processing government's mainframe computer systems. This audit is performed in accordance with CICA standards and provides reasonable, but not absolute, assurance to government that the contracted service organization has in place appropriate control procedures for those matters that are its responsibility as at the date of the audit.

3.20 Since the programs, processing and data for significant government systems reside at the data centre (including payroll, drivers' licensing, vehicle registration, property assessment, justice), the results of an independent control audit may be of interest to the Members of the Legislature. Exhibit 3.1 on page 22 is an extract from the most recent auditors' report on control procedures of the contracted services provided to government at the data centre. Control objectives referred to in that report, which are the responsibility of the service provider, include the following:

1. Security Organization - An information security function exists and develops and implements policies and procedures to protect facilities, operations and data and programs.

2. Logical Access - Effective logical access mechanisms exist to restrict access of service organization personnel to the data and programs.

3. Business Continuity Planning - Effective mechanisms exist to ensure that critical information systems will continue to be available in the event of a disaster.

4. Operations - Controls are in place to prevent or detect errors within the operations area.

5. Facilities - There are adequate facilities and physical security over computer hardware, programs, on-site data tapes and files.

6. Data Communications - Controls provide reasonable assurance over the integrity of data in the telecommunications network.

7. Maintainability - System development and maintenance activities are authorized, adequately tested, reviewed, approved and implemented.

3.21 The report identifies the control procedures in place at the time of the review to support achievement of each of the above control objectives. The report also identifies a number of significant matters that are the specific and direct responsibility of government, which are not covered by the annual review and reporting.

3.22 This annual audit only relates to controls over government's mainframe computer systems, not the government's SAP systems or Department of Health's Meditech system. The SAP systems are to be subject to a separate annual service audit commencing in 2004.

Recommendation 3.3

We recommend government consider increased use of independent service audit arrangements to ensure data processing service providers have adequate functioning controls in place.

Recommendation 3.4

We recommend government assess the adequacy of its own control procedures associated with data processing service provider arrangements.

Procurement Administrative Review

3.23 The Departments of Finance and Transportation and Public Works contracted an external firm to perform a procurement administrative review of the *procure to pay* process stream within government. The review concentrated on the procurement of goods, services, and construction, covering the entire *procure to pay* process stream (i.e., approval; requisition; purchasing; receiving; payment; reporting; and compliance reviews). The key objectives of the review were to:

- *"Assess and present recommendations regarding the existing "procure to pay" business processes in the context of existing government policies, reporting requirements and compliance reviews requirements;*
- *Review and comment on the current application of the procurement website, the SAP Procurement function and their integration with the Province's financial system;*
- *Identify and present other public sector procurement and payment practices;*
- *Identify and present recommendations to address deficiencies, redundancies and inefficiencies in current practice in the Province of Nova Scotia; and*
- *Assess and present recommendations regarding the existing structure and reporting relationships between the Procurement Branch and end-user Departments."*

3.24 The external firm's final report was dated December 2003 and issued to government. It included a number of findings and recommendations to be addressed by a steering committee established by the Office of Economic Development in May 2004.

Available Guidance and Standards

3.25 The House and Executive Council have significant roles to play in monitoring government operations, including the adequacy of the level of control exercised over the use of public funds and resources. These roles are, in some regards, similar to those of a governing body in the corporate sector. CICA has developed a series of key/significant questions for governing bodies to consider in their oversight of an entity's control or other activities. For example, CICA's *20 Question Series* publications are available in the following areas which may be of interest:

- executive compensation
- information technology
- pension governance
- privacy
- management of risk

3.26 Other sources are also available which are supported by international organizations and widely used around the world. As suggested in previous reporting, government needs formal standards or a framework for management and staff within the Provincial public sector to use as a reference when designing, implementing or assessing the appropriate level of control.

CONCLUDING REMARKS

3.27 In the recent past, there has been a great deal of public and media attention on matters reported to the Parliament of Canada about the controls and other activities related to the Federal "sponsorship" program. The magnitude of such matters, in relative terms, in Nova Scotia equates to less than $1 million per year. The question that needs to be asked is whether Nova Scotia's public sector management and control systems and processes are sufficient to prevent or detect such issues.

3.28 Good systems and controls are costly, while too many or less than optimized controls can also be costly. Government's challenge is to ensure that the risks of loss or misuse are appropriately identified and that decisions made about the level of control to be in place appropriately mitigate risks on a cost-benefit basis. The goal is not more or too many controls, but rather cost-effective optimization of control against risks.

Exhibit 3.1 **Auditor's Report on Control Procedures**

We have examined the accompanying description of the stated internal control objectives of the [service organization] and the control procedures designed to achieve those objectives and have performed tests of the existence of those control procedures as at March 5, 2004. Our examination was made in accordance with Canadian generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

Our examination was limited to control objectives relating to the mainframe partition used by the Government of Nova Scotia.

In our opinion, the control procedures included in the accompanying description were suitably designed to provide reasonable, but not absolute, assurance that the stated internal control objectives described therein were achieved and the control procedures existed as at March 5, 2004.

As we tested the existence of the control procedures only as at March 5, 2004, we do not express an opinion on whether the control procedures existed at any other time.

The description of stated internal control objectives at the [service organization], and the control procedures designed to achieve those objectives is as of March 5, 2004. Any projection of that description to the future is subject to the risk that, because of change, the description may no longer portray the control procedures in existence. The potential effectiveness of specific control procedures at the [service organization] is subject to inherent limitations and, accordingly, errors or fraud may occur and not be detected. Furthermore, the projection of any conclusions, based on our findings, to future periods is subject to the risk that changes may alter the validity of such conclusions.

This report is intended solely for the use of the Government of Nova Scotia.

Halifax, Canada
March 5, 2004

Department Audits

4 HALIFAX REGIONAL SCHOOL BOARD FOLLOW-UP TO 2000 AUDIT

BACKGROUND

4.1 In 2000 we conducted audits of the Halifax Regional School Board and Chignecto-Central Regional School Board, the two largest school boards in the Province. The assignment focused on financial management. In its response to that audit, HRSB invited us to revisit after a two-year interval to observe the improvements. We revisited HRSB in the fall of 2003 to complete a follow-up audit on the implementation of the recommendations provided in the 2000 Report.

RESULTS IN BRIEF

4.2 The following are the principal observations from this audit.

- HRSB has successfully implemented the recommendations made in our 2000 Report in the area of budgeting and financial management.
- HRSB is generally in compliance with the legislation and policies dealing with the accountability relationship between HRSB and the Department of Education. However, some required documents were submitted to the Department after the deadline.
- Regional School Board financial statements are prepared in accordance with accounting policies specified by the Department of Education and do not comply with generally accepted accounting principles in certain areas. For the March 31, 2004 financial statements, the auditors' reports are expected to reflect recent changes to the CICA Handbook and will likely indicate that the financial statements are prepared for the Department of Education and not intended to be used by anyone other than the specified users or for any other purpose. The lack of compliance with generally accepted accounting principles reduces the value of the school board financial statements to the House of Assembly and the general public.
- One of the major differences between generally accepted accounting principles and the current HRSB financial statements is in the reporting of Reserve Funds. During 2001-02, HRSB established two new Reserve Funds. As at March 31, 2003 the reserves had balances of $0.5 million and $2.6 million, respectively. Transfers from operations to these reserves were included as deductions on the Consolidated Statement of Operations and resulted in the Board's recording of breakeven results rather than the surplus which would have otherwise been recorded. HRSB intends to make a change to the accounting disclosure in its 2004 financial statements to remedy this.

- A new financial system (SAP R/3) has been successfully implemented at the Regional School Boards including HRSB and a new SAP-based human resource and payroll system is in the developmental stage with planned implementation in August 2004. The Board is working towards improving the reports generated by the financial system.

- The new financial system for all school boards is processed on a single server which is hosted by the Province. In the 2003 Report of the Auditor General, we recommended that there was a need for the school boards, and the Departments of Education and Finance, to make arrangements for an annual audit of the data processing operation for the financial management system. A September 2003 management letter from the external auditors to HRSB includes a similar recommendation. The purpose of such an audit would be to eliminate duplication of audit effort by the financial statement auditors of all regional school boards using the system.

- Supplementary Funding for the Halifax Regional School Board is a historical legacy which requires extensive administrative effort and leads to unequal funding and program offerings in the three former municipal units comprising the Board. Legislative change may be required if the Board is to move towards becoming a single, cohesive unit.

AUDIT SCOPE

4.3 The objectives of this assignment were to:

- assess the progress made since 2000 in implementing improvements to HRSB's budgeting and financial management processes;

- review certain aspects of the accountability relationship between HRSB and the Department of Education for compliance with legislation and policies;

- review HRSB's audited financial statements and management letters for 2001 to 2003 and determine whether there are any related findings that should be reported to the House of Assembly; and

- determine the status of implementation of SAP at HRSB and future plans in this area.

4.4 Our approach included discussion and review of evidence supporting implementation of the recommendations from our 2000 audit and certain aspects of the accountability relationship between HRSB and the Department of Education. In addition, we also reviewed HRSB's audited financial statements, and management letters for 2001 to 2003 and reviewed the external auditor's files for 2003. Further, we discussed the implementation of SAP at HRSB with management and reviewed related documentation.

4.5 The audit criteria were taken from the *Education Act and Regulations*; Department of Education policies; the Canadian Institute of Chartered Accountants' Handbook and *Information Technology Control Guidelines*.

PRINCIPAL FINDINGS

Budgeting and Financial Management Improvements

4.6 Senior management acted on the recommendations flowing from our 2000 audit and commenced implementing changes in 2001. As a first step, the Board approved the Budget and Business Planning Policy and Procedures in November 2001. These are available on the Board's website. Management provided a status report on implementation of our 2000 recommendations to the Board in September 2003. The status report, which we did not audit, is reproduced as Exhibit 4.1 (page 35).

4.7 Business planning - The Board's policy includes a section on business planning which sets out the broad responsibilities in the area of longer-term business planning. The Board has held stakeholder consultations, established priorities and developed annual goals and objectives as required by the policy. We examined the Board's 2003-04 Approved Business Plan and Budget. Linkages from the Business Plan priorities to the goals and objectives in annual operational plans are readily apparent. Budget recommendations are cross-referenced to particular Business Plan initiatives. The Business Plan includes outcome measures and targets to be achieved.

4.8 Budget process - The Board's policy includes a section on budget procedures which clearly sets out the requirements of the budget preparation process and roles of those with budget responsibilities. The policies and procedures established are consistent with the recommendations from our 2000 audit.

4.9 The Budget and Business Planning Policy requires assumptions to be provided to the Board for review; enrollment projections to be completed; a staffing formula to be approved; documentation standards and sign off procedures to be followed. The initial business plan and budget must be completed prior to commencement of the fiscal year, with final approval following receipt of approved funding levels.

4.10 We found that significant improvements had been made to the process of documenting assumptions included in the business plan and budget. Adequate information and analysis supporting the assumptions were available for our audit.

4.11 Student enrollment projections were completed based on student population growth and decline trends. These enrollment projections were utilized as the basis for staffing models and budgeted staffing allocations. We found that the staffing models and budgeted staffing allocations were completed in accordance with the Board-approved staffing formula and enrollment projections. Final completion

and approval of staffing models could not occur until after approved funding levels became known, shortly after the start of the new fiscal year.

4.12 Initial budgets were developed before the start of the 2003-04 fiscal year and submitted to the Department of Education for review. Government funding levels were not finalized through the Estimates process until April 28, 2003, after the fiscal year had started. The final budget was not approved until early June. The timing of government's approval of the Estimates prevents the Board from completing its budget responsibilities prior to commencement of the fiscal year.

4.13 We recommended in our 2000 Report that the RSBs continue to request annual and multi-year funding targets from the Province prior to commencement of the fiscal year. We note that the Province has recently provided multi-year funding targets to District Health Authorities. We continue to encourage the RSBs and Department of Education to pursue multi-year funding commitments and approval of final budgets prior to the start of the new year.

Recommendation 4.1

We recommend that the RSBs continue to request annual and multi-year funding targets from the Province prior to commencement of the fiscal year. This would facilitate Board approval of final budgets before the start of the fiscal year.

4.14 Financial monitoring and reporting - The Budget and Business Planning Policy includes a financial and forecasting procedures section which clearly sets out the responsibilities of those with budgetary roles. Monthly financial information including monthly and year-to-date actual to budget comparison; annual budget; year-to-date percentage; and prior year actual results is required to be reported. The policy is consistent with recommendations from our 2000 audit.

4.15 The monthly financial reports, commencing with October 2003, include the previous year's monthly and year-to-date actual information, monthly and year-to-date budget, and year-to-date percentages. Prior to October 2003, comparisons with the prior year were not included because restructuring within the Board contributed to delays in producing comparable information.

4.16 The policy also requires senior staff to explain significant variances and prepare forecasts monthly. Quarterly reporting at a summary level to the Board is required. We had recommended, in 2000, that variance explanations be written. Variances had been discussed by senior management and the Audit and Finance Committee, but written explanations have recently been provided.

4.17 We had also recommended in 2000 that the forecast to year end process should

- start early in the fiscal year so that corrective measures could be taken on a timely basis, and
- include staff with budget responsibilities to ensure completeness and accuracy.

4.18 The Board's policy includes these recommendations. Financial Services staff and operational staff with budget responsibilities now meet with members of the Senior Management Committee, on a monthly basis from October to March each year, to discuss actual expenditures incurred and to prepare a forecast for their areas of operation.

4.19 During the first two quarters of the 2003-04 year the forecast to year end is equal to the original budget. Because the fiscal year (April to March) is different than the school year (September to June), management advise that forecasting is difficult before the new school year begins as key factors such as enrollments and staffing levels are not known with certainty until that time. The first revised forecast for 2003-04 was reported in February 2004, based on variance trends reported in the December 31, 2003 financial statements. If the forecasting process began earlier in the year, we believe that management and the Board would receive more current information and enhance the ability to take corrective action as required.

4.20 The HRSB is also required to submit financial forecasts to the Department throughout the fiscal year. The first revised forecast submitted to the Department in fiscal 2002-03 was in February 2003, although financial statements had been submitted monthly since October 2002. While the Department was informed there were no significant variances before this forecast was prepared, we believe financial forecasts should be prepared and submitted to the Department earlier in the fiscal year.

Recommendation 4.2

We recommend that the Halifax Regional School Board start the forecasting process by the end of the first quarter of the fiscal year.

4.21 Financial reports are given to management who may distribute the information to staff in their area. In 2003, HRSB began to provide training and online access to SAP to non-financial staff. These staff are now able to generate standard financial reports and perform on-line queries from the financial system.

Accountability and Compliance

4.22 The Education Act establishes the accountability relationship between the Department and the HRSB. Under the Act, the HRSB is required to submit a business plan, budget, audited financial statements, external auditor's management letter and other documents to the Department. In some cases, deadlines were missed due to delays in approval or receipt of external information but we noted no instances where the required documents were not submitted to the Department.

4.23 Annual report - Section 64(2) of the Education Act requires the HRSB to submit an annual report to the Department. The business plan format communicated by the Department requires the RSBs to develop outcomes, measures and targets and to report the level of achievement annually commencing in 2004-05. This business plan format was designed to eliminate the need for separate annual reports. The lack of consistency between the Act and the Department's practices, which do not require an annual report, needs to be resolved.

4.24 Currently, HRSB is providing narrative description on the achievement of priorities established through the business planning cycle. HRSB is also working towards defining the outcomes, measures and targets for 2004-05 and has included this information in its public 2003-04 Business Plan and Budget document. HRSB management indicated that the business plan does not report on achievement of performance targets because this information is not yet required by the Department.

Recommendation 4.3

We recommend that the Department of Education and HRSB ensure that the level of achievement of performance targets and outcome measures is reported in the RSB business plans.

4.25 Personal-services contracts - Section 64(3A) of the Education Act requires the Minister of Education to approve all employment or personal-services contracts. Ministerial approval of the HRSB Superintendent's personal-service contract occurred as required.

4.26 School boards are required to implement an administrative structure and establish a compensation framework for senior staff as defined in the Regulations. The Department has formed an Administrative Structure, Compensation, Contracts (SCC) Committee to oversee the development of this initiative.

4.27 The administrative structure of the HRSB was reorganized in early 2003 which resulted in the elimination of three assistant superintendent positions which were replaced by three Executive Director positions. HRSB has not been able to negotiate personal-service contracts with these staff as the SCC Committee has not completed its work. As a temporary measure, the Board developed an

appointment letter for these positions. The affected positions fall under the Collective Agreement between the Minister and the Nova Scotia Teachers Union so the salaries were unaffected by the lack of a personal-service contract. The appointment letter includes details of employee benefits for the positions.

4.28 In the 2003 Report of the Auditor General, Chapter 5 – Accountability of School Boards (paragraph 5.26, page 71), we indicated that the Department of Education had established a deadline of winter 2003-04 for all senior staff to have employment or personal-service contracts. We encourage the Department to complete the initiative.

4.29 Audit Committees – The Education Act Regulations were revised in November 2003 to require school boards to establish audit committees. Senior management of the HRSB recently completed a review of the Board by-laws to ensure compliance with the revised Regulations.

External Financial Reporting

4.30 In the 2003 Report of the Auditor General (paragraph 5.37, page 73) we noted that the Department of Education establishes, documents and communicates its general accounting policies to the school boards through the District School Board Financial Handbook. The school boards utilize the financial handbook originally issued in 1987. The handbook has not been updated to keep pace with the many changes in generally accepted accounting principles (GAAP). The external auditors' opinions for all school boards have indicated that the financial statements are in accordance with accounting principles included in the District School Board Financial Handbook. However, the school boards' financial statements are not compliant with current generally accepted accounting principles

4.31 In the 2003 Report, we also indicated that although the boards have not received qualified audit opinions to date as a result of the lack of compliance, it would be likely, given current developments in the auditing professions, that future audit opinions would be qualified unless the boards adopted generally accepted accounting principles.

4.32 Recently, the Canadian Institute of Chartered Accountants has issued pronouncements which make the status quo unacceptable for the March 31, 2004 Regional School Board financial statements. Auditors can no longer give unqualified opinions on general purpose financial statements unless the statements comply with generally accepted accounting principles. The Department of Education and school boards have been discussing the implications and decided that compliance with GAAP is not possible for the year ended March 31, 2004. The Department has indicated that the financial statements will be viewed as financial statements prepared specifically for the Department of Education under the requirements of the Education Act – not for general users. This means that the Auditor's Report will include wording similar to the following:

> *"these financial statements, which have not been, and were not intended to be, prepared in accordance with Canadian generally accepted accounting principles, are solely for the information and use of (the addressee) and; the regulator or legislator...for the (purpose(s)), and are not intended to be and should not be used by anyone other than the specified users, or for any other purpose..."* (CICA Handbook 5600.17(d))

4.33 It is unfortunate that the school board financial statements will not be based on GAAP and viewed as general purpose financial statements. The current approach reduces the value of the school boards' statements to the House and the general public. However, we understand the difficulty in changing accounting principles in a very short time frame. We acknowledge that it is unlikely that the Province's consolidated financial statements, which include the school boards, will be materially misstated because of school boards' lack of compliance with GAAP in this area. The Department of Education has informed us that it hopes to achieve compliance with GAAP by 2005-06. The Department has also indicated that school boards in Ontario are taking a similar approach.

Recommendation 4.4

We recommend that the Department of Education and School Boards work towards establishing Generally Accepted Accounting Principles as the basis of accounting for Regional School Boards.

4.34 One of the differences between GAAP and the current HRSB financial statements is in the reporting of Reserve Funds. During 2001-02, HRSB established two new Reserve Funds - the Program Resources Reserve and the General Fund Reserve. As at March 31, 2003 the reserves had balances of $0.5 million and $2.6 million respectively. Transfers from operations to these reserves were included as deductions on the Consolidated Statement of Operations and resulted in the Board's recording of breakeven results rather than the surplus which would have otherwise been recorded. Recording transfers to reserves as deductions from operating revenue is not GAAP. The reporting of reserve funds obscures the actual operating results for the year.

4.35 Another difference relates to the exclusion of school-based funds (revenue collected at the school level for specific purposes) which is not included in the Board's financial statements but would be required to be included under GAAP. Other differences are discussed in Chapter 5 of the 2003 Report of the Auditor General. Management has indicated that a closer alignment with GAAP is planned for the 2003-04 financial statements, particularly in the area of reporting of reserves.

4.36 HRSB's annual financial statements are audited by a public accounting firm. We reviewed the auditor's working papers for the year ended March 31, 2003 and found only one matter, reported in the auditor's management letter to the Board, significant enough to report here. The auditors recommended improvements in control over revenues related to International Students, Summer School and Excel

including the need to reconcile the number of actual students in each program to the revenues recorded in the general ledger. A status report prepared by finance staff at HRSB in October 2003 indicated that the required changes had been made. This will be followed up by the financial statement auditors when they complete the March 31, 2004 audit.

Status of Implementation and Plans for SAP at HRSB

4.37 The Department of Finance provided funding to the Nova Scotia School Boards Association to fund the Integrated Data Management Project (IDMP) implementation. The project scope includes implementation of financial, procurement and business warehouse modules of the government's Central Financial Management System (CFMS) using SAP software at all school boards.

4.38 The project was directed by a steering committee at the Provincial level with representation from the regional school boards. Staff from the various boards were trained on the system and it was implemented at all boards in the Province effective April 1, 2002. As noted in the 2003 Report of the Auditor General, page 67, the implementation of a new financial accounting system for school boards was a significant undertaking. The project was completed as planned, by the target date and within the project budget. At HRSB, the implementation was a collaborative effort between the Provincial implementation team and the Board staff.

4.39 HRSB is represented on a committee which has been tasked with developing standardized financial reports for use by all school boards in the Province.

4.40 Future plans include implementing a new human resources and payroll module through a joint Provincial project involving the Departments of Finance and Education and the Public Service Commission. Implementation of this module, planned to be active by August 2004, will allow the HRSB to more effectively monitor and report on salary and benefit costs.

4.41 At the current time, individual schools do not have access to the new system. Although HRSB would like to extend access to schools to improve financial information and controls at that level, it is unlikely that will happen in the near future due to the resources required.

4.42 The new financial system for all school boards is processed on a single server which is hosted by the Province. In the 2003 Report of the Auditor General, we recommended that there was a need for the school boards, and the Departments of Education and Finance, to make arrangements for an annual audit of the data processing operation for the financial management system. This would reduce duplication of audit effort at the school boards, and enable the individual financial statement auditors to rely on a common audit. A September 2003 management letter from the external auditors to HRSB includes a similar recommendation. HRSB has initiated discussions with the Department of Education but, to date, no progress has been made on this issue.

Recommendation 4.5

We recommend that the Halifax Regional School Board continue discussions with the Departments of Education and Finance with a view towards obtaining a service organization audit opinion on the data processing operation.

Other Financial Challenges

4.43 Funding formula - In the 2003 Report of the Auditor General, we commented on the Department of Education's application of the funding formula for school boards (page 77). The Halifax Regional School Board believes that it is underfunded as a result of the Department's practices and has expressed a desire for greater transparency in the funding formula. The Deputy Minister of Education attended a meeting of the HRSB in February 2004 to share with Board members some of the reasons why the Department believes per student funding comparisons are inappropriate. He also committed to review the funding formula during 2004-05.

4.44 Supplementary funding - Since its formation in 1996, HRSB has struggled with the issue of Supplementary Funding which arises because the Municipal Government Act specifies that tax revenues raised in the two former cities (Halifax and Dartmouth) for educational purposes must be spent in those areas. Exhibit 4.2 includes the relevant provisions of the Municipal Government Act. In 2003, the total amount of Supplementary Funding received from the Halifax Regional Municipality was $20.8 million which was allocated among the three former municipalities as follows:

- Halifax - $12.3 million
- Dartmouth - $5.2 million
- Halifax County - Bedford - $3.3 million

4.45 Because the HRSB has responsibility for education of students in all three former municipalities, the administration of Supplementary Funding according to the legislation is difficult and leads to unequal total funding allocations among students and schools. Exhibit 4.3 was included in the HRSB's approved 2003-04 Business Plan and Budget and is reproduced in this Report to demonstrate the impact of the Supplementary Funding on a per student basis.

4.46 HRSB prepares a separate Business Plan and Budget for the Supplementary Fund and keeps separate accounting records by former municipal unit. The Board also has an 11 page Policy and Procedures document to govern administration of the Fund. There is extensive time and effort required to administer these funds and the result is that program offerings are different in the areas served by the three former municipalities. Supplementary Funding is a historical legacy. Legislative change may be required if the Board is to move towards becoming a single, cohesive unit.

CONCLUDING REMARKS

4.47 We are very pleased with the action taken by the HRSB to address the recommendations from our 2000 audit. The Board has made extensive changes to successfully implement the improvements in financial management.

4.48 Audited financial statements are one of the most important components of a strong accountability regime for funding received by the Province. We continue to be concerned that the financial statements of all school boards in the Province are not based on generally accepted accounting principles. This seriously impedes the usefulness of the school board financial statements to the House of Assembly and the general public.

Status Report on Auditor General's 2000 Report - September 16, 2003
Unaudited - Prepared by Halifax Regional School Board

Exhibit 4.1

OBSERVATION/ RECOMMENDATION	ACTION TAKEN/STATUS
Business Planning	
HRSB has elements of a business plan but has not developed a formal plan.	The Board has completed annual business plans since 2001. The process is now firmly entrenched in both Board policy and Department of Education guidelines. The Board has received favourable response from the Department to the 2003-2004 business plan. Formal business planning is undertaken for the Supplementary Fund as well.
Budget Process	
1. Linkage of budget to long term and operational plans should be clear and well documented	The process of completing business plans and budgets has continued to evolve and improve since 2001. The 2003-2004 business plans and budgets have very clear and well documented linkages and this has now become an important and regular component of this process.
2. No documentation on presentation and approval of budget assumptions. The Board should require preparation and approval of budget assumptions as one of the first steps in the budget process.	The Financial Services Department prepares detailed budget assumptions and retains the supporting documentation. The budget assumptions are reviewed and endorsed by Senior Staff and other budget managers. The budget assumptions are reviewed with the Board at the Budget Workshops as the first step of Board review and approval. This is considered an appropriate approach to development, review and endorsement of budget assumptions.
3. (a) HRSB improve the quality of the enrolment assumptions used during the budget process and that the staffing formula be specifically developed and approved by the Board.	There is a formal staffing model that is used by Senior Staff and Board to allocate budgeted staffing. This model was reviewed and approved by the Board in April 2003 prior to final approval of the budget. Enrolment projections are done in the spring and have been very accurate in the past.
Board members be directly involved in determining the number of staff and average class sizes for the coming year.	Overall staffing formulas, enrolment projections and allocations were approved by the Board in April 2003. It is a formal policy that the Board approve the number of staff and staffing formulas as part of the budget process.

OBSERVATION/ RECOMMENDATION	ACTION TAKEN/STATUS
(b) Enrolment projections should be provided to the Board for review as part of the initial stages of budget preparation.	Enrolment projections are provided to the Board when complete. This was done in April 2003 for the 2003-2004 school year.
4. HRSB did not retain detailed support for the preliminary budget calculations. Support for the final budget should be retained.	Financial Services now retains all detailed supporting budget documentation.
5. There was inadequate supporting analysis in some cases: - heating fuel budget - maintenance supplies & materials with strategies and plans for achieving budget targets not documented.	This observation actually applied only to heating fuel. The maintenance budget is determined by available funding and Operations manages to that amount. The nature and extent of detailed supporting analysis for the budget has improved over the past two years and staff retains the detailed supporting analysis for all budget line items.
6. HRSB has no documentation standards, retention schedules, requirements for formal sign off or independent quality control reviews for the final budget.	Although the Board has not yet approved a broad based records retention policy, Financial Services retains all budget records for a 7- year period. We have not required departments to formally sign off the preparation of their first draft budgets but we do have a decentralized budget preparation process and all departments are asked to confirm their draft budgets before proceeding to Board approval. For independent quality control reviews, we have had the Director of Grants and Audit of the Department of Education review the budget prior to final Board approval. Human Resources will be undertaking the development of a broad based records retention policy in 2003-2004.
7. (a) HRSB Board was given inadequate information on which to base a budget related decision re the Community Collaboration & Partnerships Department.	There is disagreement with this observation and belief that the Board was given all the information it required to make an informed decision. It as a one-of situation that does not require follow up.

OBSERVATION/ RECOMMENDATION	ACTION TAKEN/STATUS
(b) Recommend that for profit centres, information going to the Board be prepared in accordance with appropriate profit centre accounting practices.	The budget document has been modified to incorporate this recommendation, i.e., EXCEL, Facilities Rentals, etc.
8. Budgets should be completed and approved prior to commencement of the fiscal year.	A final budget cannot be approved without official funding notification from the Province. The Board follows an acceptable timeframe for budget approval based on the timing of funding information and meets all legislated budget approval time requirements.
Information Systems	
1. HRSB does not include prior year actuals in their monthly statements for comparison with current results.	It was very difficult with the SRB system, which was formerly used by the Board, to provide prior years actuals. We have only used SAP for one fiscal year. It is easier to report prior years actuals with SAP and this will be pursued with the intention of including this information by the third quarterly report for 2003-2004.
2. HRSB does not have a formal policy for preparing written budget to actual comparisons and related variance explanations. There are no written criteria for what is considered a significant variance.	The Business Plan and Budget policy requires Board departments to investigate variances and for commentary on variances to be provided to the Board on a quarterly basis. We will ensure written commentary is provided where appropriate.
3. All staff who have budgetary responsibilities should be involved in reviewing financial information and preparing variance explanations.	These measures are included in the budget and business plan policy of the Board. All Board departments have greater responsibility in preparation and review of the budget and actual financial information.
4. RSB's should start the forecasting process early in the fiscal year.	The forecasting process is started after the first quarter, with a more concentrated effort beginning after the second quarter when the new school year has begun.

Exhibit 4.2

Extract from Municipal Government Act

Funding of Halifax Regional School Board

530 (1) The council of the Halifax Regional Municipality shall provide to the Halifax Regional School Board at least the amount of additional funding that was provided to the Halifax District School Board in the fiscal year beginning April 1, 1995, to be used solely for the benefit of the area that was formerly the City of Halifax.

(2) The guaranteed amount payable pursuant to subsection (1) shall be recovered by area rate levied on the assessed value of the taxable property and business occupancy assessments in the area that was formerly the City of Halifax.

(3) The council of the Halifax Regional Municipality shall provide to the Halifax Regional School Board at least the amount of additional funding that was provided to the Dartmouth District School Board in the fiscal year beginning April 1, 1995, to be used solely for the benefit of the area that was formerly the City of Dartmouth.

(4) The guaranteed amount payable pursuant to subsection (3) shall be recovered by area rate levied on the assessed value of the taxable property and business occupancy assessments in the area that was formerly the City of Dartmouth.

(5) Subject to subsection (6), the amounts guaranteed pursuant to subsections (1) and (3) may not be decreased by more than ten per cent of the amounts specified in subsections (1) and (3), respectively, in any year, beginning in the fiscal year commencing April 1, 1996.

(6) The council of the Halifax Regional Municipality and the Halifax Regional School Board may agree to reduce the amount of the guarantees at a faster rate than is permitted pursuant to subsection (5).

(7) Funding provided pursuant to this Section is in addition to funding provided pursuant to the Education Act. 1998, c. 18, s. 530.

Extract from HRSB's Approved Business Plan and Budget 2003-04 Unaudited

Exhibit 4.3

SUPPLEMENTARY FUND BUSINESS PLAN & BUDGET
2003-04
KEY FACTS

	Halifax	Dartmouth	County/Bedford
Schools	34	24	81
Enrolment -			
September 30, 2001	13,055	9,957	34,465
September 30, 2002	12,945	9,745	34,275
2001-2002			
Residential Tax Rate	12.3c	9.7c	4.5c
Weighted Assessment[1]	$9,642,083,500	$5,198,379,700	$7,066,646,500
Funding	$11,880,000	$5,062,000	$3,200,000
2002-2003			
Residential Tax Rate	11.75c	9.5c	4.4c
Weighted Assessment[1]	$10,463,475,550	$5,505,238,250	$7,532,196,500
Funding	$12,295,800	$5,239,200	$3,312,000
2003-2004			
Residential Tax Rate	10.90c	8.80c	4.00c
Weighted Assessment[1]	$11,302,395,000	$5,942,567,800	$8,206,349,300
Funding	$12,295,800	$5,239,200	$3,312,000
Funding per Student -			
2002-2003	$950	$538	$97
Total Supplementary Funded FTEs (School Year 2002-2003)			
Teachers	155.35	63.15	37.35
Non-Teachers	64.15	32.80	29.11

Note 1: Weighted assessment is residential assessment plus 2.55 times the commercial assessment. This reflects the fact that the commercial tax rate is 2.55 times the residential rate. However, this does not currently apply to the County/Bedford area as it is still applied as an area rate and not a property tax.

HALIFAX REGIONAL SCHOOL BOARD'S RESPONSE

Thank you for the opportunity to comment on the reported results of this follow up audit. We appreciate that the Auditor General has examined the progress we have made in implementing previous recommendations and welcome the observations and recommendations from this follow up review. As noted, the Halifax Regional School Board was subject to an audit in 2000 and the Board extended an invitation to the Auditor General to return in two years to review progress taken on the recommendations from 2000.

The HRSB's goal is to have strong, efficient and effective financial management practices. We have made significant progress in that endeavour as evidenced by the observations of the Auditor General. However, it doesn't stop. The HRSB is making every effort to comply with generally accepted accounting principles in financial reporting. Financial policies for school boards are prescribed by the Department of Education and certain accounting and reporting issues are beyond the capacity of school boards to implement without Departmental support. However, the Department is working with all boards to address these issues.

Our response on the 5 recommendations in the report is:

1. **Multi-year Funding** - We fully support this recommendation and agree that multi-year funding permits schools boards to undertake broader long range planning. We continue to urge the Provincial government to provide multi-year funding.

2. **Budget Forecasting** – Due to the differences in the months covered by the fiscal year versus the school year, a new school year does not occur until the 4th month of the fiscal year. It can be difficult to get a firm projection for the balance of a fiscal year until a new school year has begun. For that reason, it makes sense to have the fiscal year and the school year cover the same 12 month period. However, the Board will undertake a more detailed review of projections much earlier in the year as recommended.

3. **Outcome Measures** –The format for the annual business plan is prescribed by the Department of Education. The HRSB has fulfilled the current requirements but there is agreement that more work needs to be undertaken to report on performance targets and achievement of results. This will be a focus of the board in preparation of the 2005-06 business plans.

4. **Generally Accepted Accounting Principles** – The HRSB is taking every step possible in achieving full compliance with GAAP. The Board will continue to work with

the Department of Education in meeting this objective within the next year.

5. ***Service Organization Audit*** - The HRSB is fully supportive of the government undertaking a service organization audit to provide assurance that there are appropriate controls over data operations at the provincial server.

The HRSB has embarked upon a Planning for Improvement initiative to improve student success. All aspects of Board operations contribute to the success of this initiative. Financial management is no exception and the Board continues to work on improvements in Financial Services that contribute to overall student success.

We would like to thank the team who completed the audit in 2000 and returned again this year to provide professional and balanced advice and observations. We will continue to seek their advice in moving forward on further improvement initiatives.

5 NOVA SCOTIA COMMUNITY COLLEGE

BACKGROUND

5.1 In response to suspected fraud at Collège de l'Acadie, in May 2002, the Minister of Education requested the Office of the Auditor General to conduct an audit of the general audit and control environments at post secondary institutions in the Province including both universities and the Nova Scotia Community College. Specifically, the Minister wanted "*assurances that the audit procedures and control mechanisms in place are adequate and appropriate to protect tax dollars.*" An audit of the university sector was conducted and reported on in the 2003 Report of the Auditor General (page 83).

5.2 The Nova Scotia Community College (College) is governed by the Community Colleges Act which was proclaimed on April 1, 1996. The Act specifies the composition, function, duties and powers of the Board of Governors. The Board bylaws establish standing committees and general terms of reference for each. The Board is authorized to appoint and determine the terms and conditions of employment of the President, who is the Chief Executive Officer of the College.

5.3 In 2002-03, the Province provided approximately 59% of the College's total revenue. The College's tuition must be approved by the Governor in Council and the College's programs of study and related guidelines are required to be approved by the Minister of Education. The College's buildings are owned by the Province. The College is viewed as a Government Service Organization and the Province's consolidated financial statements include the financial position and operating results of the College. Although the College is governed by an independent Board, it has a close relationship with the Province by virtue of Provincial funding and ownership of buildings.

5.4 The College provides industry-driven education in over 100 programs, for 8,500 full-time students (see Exhibit 5.1). In addition, 5,000 customized training participants, and 12,000 part-time students are currently pursuing learning opportunities at one of the campuses or via NSCC Online Learning.

5.5 The College has 13 campuses throughout Nova Scotia with a total building asset base of approximately $300 million. There are currently 10 Provincial campuses and three in the metro Halifax area. The College's central administrative offices are located at the Institute of Technology Campus in Halifax.

5.6 The 2002-03 audited financial statements of the College showed actual revenues of $113.9 million with operating expenses of $113.5 million resulting in a surplus of $0.4 million (see Exhibit 5.3). The College has planned a balanced budget for the 2003-04 fiscal year. The Province's actual operating grant to the College for the 2002-03 fiscal year was $66.9 million and is budgeted to be $72.3 million for 2003-04 (see Exhibit 5.2).

5.7 During the Speech from the Throne on March 27th, 2003 the Government declared its support for the growth of the College, and followed up the next day with a detailed funding announcement. A total of $123 million in capital expenditures over the next six years was dedicated to the College; which will require an additional $29 million in operating funds, in total, over the same time period. The Province's significant financial commitment to the College was based on acceptance of the College's Master Plan for increasing enrollment to meet the Province's needs. In the 2004-05 Estimates, the College received less funding than it had anticipated for the initiative. Operational funding, planned for $810,000, was not received. Capital funding, planned at $28.69 million was reduced to $25.5 million.

5.8 Our last audit of the College was reported in the 1999 Report of the Auditor General. We have followed up on our recommendations from that audit in this Report.

RESULTS IN BRIEF

5.9 The following are the principal observations from this audit.

- Our audit of the internal control environment over revenues and payments indicated that controls in most areas we tested were adequate. However, we identified two significant control weaknesses. Monthly bank reconciliations need to be prepared and approved, and controls over blank and printed cheques need to be improved. Outstanding monthly bank reconciliations are now being completed.

- Procedures for the identification and collection of outstanding student account balances should be improved.

- The College has a strong internal audit function. However, management needs to ensure that findings from internal audit reports have been appropriately addressed.

- Generally, procurement transactions tested were in compliance with applicable procurement policies although instances of possible non-compliance were noted. In several instances, documentation of the public tendering process had not been kept. We also noted exceptions to the policy where the rationale should have been documented more clearly and properly approved.

- Although the College has a strategic plan and the Board monitors financial results and key performance indicators, we believe that preparation of a formal business plan and distribution to key stakeholders such as the Department of Education and students would strengthen accountability for public funds. It would also serve to document agreement on annual objectives and expected outcomes.

- The process used for development of the College's budget was generally adequate although we noted a lack of documentation of assumptions and supporting calculations for the utilities budget.

- Building condition assessments conducted on Provincial campuses indicate that the College faces a significant short-term deferred maintenance problem that requires the immediate attention of management and the Province.

- The College's governance function is well developed and includes several elements which we believe should be considered best practices. The accountability relationship between the Province and the College is established by the Community Colleges Act. As the College continues to grow and mature, the Province and the College should review and update the accountability provisions to ensure they remain relevant.

- The majority of the findings from our 1999 audit have been adequately addressed although there are still some significant findings which have not been acted upon by the College and the Department of Education. These include the need for a funding methodology, outcome measures and an agreement between the College and the Province on ownership and use of the buildings. We note that financial responsibility for deferred maintenance is a key issue that will need to be settled before building ownership can be resolved.

AUDIT SCOPE

5.10 The objectives of this assignment were to:

- review and assess the College's governance function;

- determine whether the College has adequate systems to provide for budgeting, internal financial reporting and monitoring;

- determine whether the College's senior management and the Board are receiving sufficient, appropriate information from management and the auditors to fulfill their stewardship responsibilities;

- determine whether the College has adequate systems to provide for budgeting, internal financial reporting and monitoring;

- determine whether the College has policies in place to provide for procurement in an open and fair manner that provides a high degree of competition and value;

- determine whether the College complies with the government's procurement policy;

- assess the long-range planning and maintenance of the College campus buildings to ensure it is performed with due regard to economy and efficiency;

- determine whether the College has policies and procedures to comply with the Personal Information Protection and Electronic Documents Act; and

- follow up on significant findings from our 1999 audit.

5.11 In December 2003 and January 2004, the audit plan was discussed with management of the College. Our audit criteria were obtained from recognized sources including the Auditor General of Canada's *Financial Management Capability Model*, the Canadian Institute of Chartered Accountants' *Public Sector Accounting Handbook* and *Professional Engagement Manual* and the Province of Nova Scotia's *Government Procurement Process - ASH Sector*.

5.12 Detailed on-site fieldwork was conducted during January and February 2004 and included visits to two campuses outside the Halifax metro area. The Lunenburg Campus in Bridgewater and the Truro Campus were chosen for site visits. Our audit consisted of detailed transaction testing, examination of polices and procedures, review of reports and other documents deemed to be relevant, and interviews with management and staff.

PRINCIPAL FINDINGS

Internal Controls

5.13 Revenue and payments - Our audit of internal controls at the College consisted of reviews of the financial statement auditor's files and the internal auditor's files, and discussions with management. In addition, we tested a sample of transactions in the purchases and payment cycle. Revenue and receipts transactions were tested quite extensively by the College internal auditor and we relied on his work to avoid unnecessary duplication.

5.14 As a result of our testing, we noted that monthly bank reconciliations had not been prepared since April 2003. Management indicated that they experienced problems in accessing required information after the new PeopleSoft system was upgraded, resulting in the delay. Daily reconciliation procedures for receipts and cheques are in place to mitigate the risk of fraud or misuse of cash. However, the cash balance recorded in the College's general ledger system had not been reconciled to the bank balance. The problem has been corrected and outstanding monthly reconciliations are being completed.

5.15 We also identified weaknesses in the physical security over both blank and printed cheques. Blank cheques are stored in a locked filing cabinet rather than in a safe. Printed cheques with signatures, prior to mailing, are left unattended in the mailroom which is in the administrative area. We believe that there is a risk to the College that cheques could be stolen and/or used inappropriately.

5.16 Management of the College also indicated that since the implementation of the new People Soft system, they have been unable to balance the reconciliation between the detailed sub ledger for student accounts receivable and the general ledger. The College's finance department staff are aware of the problem and are currently trying to resolve it.

Recommendation 5.1

We recommend that the College prepare monthly bank reconciliations approved by management and that the physical security over blank and printed cheques be improved. We also recommend that the College's student accounts receivable reconciliation problems be addressed.

5.17 No other significant control weaknesses were identified as a result of our audit. Findings of a less significant nature have been discussed with College management.

5.18 Student receivables - The College has established a process whereby the accounts of students with balances in arrears are flagged with a negative service indicator in the electronic system to prevent further activity. When a student is about to graduate or register in a new program, the student's account is to be reviewed to ensure that there is no negative service indicator on the file. The College's policy requires that all accounts in arrears be paid prior to graduation or registration in another program.

5.19 During our testing in this area, we noted several instances where students with overdue balances did not have a negative service indicator on the file. We also noted instances where students graduated and registered for other programs while still having balances owing. Based on the results of our testing in this area, it appears that negative service indicators are not being placed on student files as required.

Recommendation 5.2

We recommend that the College improve its process for identifying students with accounts in arrears.

5.20 The College's policy on payment of student fees is included in the Academic Calendar. Management indicates that this policy is not always strictly enforced as hardship cases are assessed on an individual basis. Collection efforts include phone calls and letters requesting payment; collection agencies are not used. Management indicated that once the student is no longer registered with the College, the outstanding fees are often not paid. At December 31, 2003 the total student accounts receivable balance was $3.9 million which includes students attending classes as well as $1.2 million related to students who had left the College.

5.21 Computer inventories - The College currently has a large inventory of personal computers (approximately 3,000) due to the nature of many of the programs being offered. Individual campuses are responsible for inventorying and monitoring computers and similar equipment. Central office expects that inventory lists be maintained and that periodic counts be conducted to verify the accuracy of the lists. The Director of Information Technology requests annual campus computer inventory lists to analyze and support budget requests for new computers. Based on our discussion with management at both central office and the campuses, there appear to be appropriate systems in place for inventorying and monitoring computers.

5.22 During our site visits, we reviewed the systems used by the campuses and conducted tests on the inventory listings provided to ensure accuracy. We were not able to conclude on the completeness of the inventory listings because the audit trail did not provide enough detail for tracing new purchases into the inventory list. Management indicated that the College is in the process of implementing the PeopleSoft asset management module which should address this problem. We also tested the accuracy of the list by verifying the existence of a sample of listed computers, and tracing a sample of computers in use to the list. We found a few exceptions. In addition, the College's capital assets are periodically counted by the Department of Transportation and Public Works.

5.23 The College at present does not have a formal policy outlining its expectations of campuses for the physical safeguarding of computer assets. Discussions with information technology management at the campus level indicated that, for example, some campuses ensure computers and equipment are locked down to desks or tables, while others only consider this an option. Instances of theft, such as Truro's loss in the past year of approximately $20,000 of computers and related equipment, demonstrate the need for increased attention and awareness in this area.

5.24 Ongoing operation and maintenance of critical College information systems including the PeopleSoft application and the e-mail system have been outsourced to a third party service provider. Responsibilities of the service provider include the requirement for adequate data file backups and disaster recovery plans. There are currently no specific College policies relating to disaster recovery or the need to backup data files for the systems which are maintained internally by College staff. Management in the Information Technology area indicated that, while no policies currently exist, the College does have a consistent process for dealing with such matters which is understood by all Information Technology staff. The College's financial statement auditors identified the need for improvements in this area and we concur.

Recommendation 5.3

We recommend that the College develop formal policies governing the safeguarding of personal computers and related equipment and, for systems maintained internally, the backup of data files and disaster recovery.

5.25 Internal audit – Unlike the universities, the College has an internal audit function. This function was formally approved by the Board of Governors three years ago, although there had been an internal audit position since the inception of the College. The Director of Internal Audit is a professional accountant and reports to the President of the College. A charter, a mission statement and polices and procedures have been created and have been approved by the Board.

5.26 Annual audit plans are prepared by the Director and approved by the Board. The annual audit plans are supported by a comprehensive risk assessment conducted by the Director with input from College management. The internal audit function effectively uses control self-assessment as a starting point for each audit. Campus managers are provided with a list of controls and required to submit an assessment to the auditor. This is followed by a site visit. We view the use of control self-assessments in this way as a best practice. At the completion of each audit, the internal auditor prepares a report outlining the scope, findings and recommendations. Highlights of the reports and the status of significant findings from previous reports are regularly presented to the Audit and Finance Committee of the Board.

5.27 Management is required to respond to the recommendations made in the internal audit reports including the actions required to address the issues raised. During our campus site visits, we followed up with management to ensure that the actions indicated had been implemented. During our visit to the Truro campus, we noted that actions indicated to have been taken to address two specific weaknesses in the recording of cash receipts had not been fully implemented at the time of our visit in January 2004. These recommendations were identified as requiring immediate attention in the internal auditor's March 2003 report. Other recommendations in the report appear to have been implemented.

5.28 We reviewed a number of internal audit reports and are satisfied with the scope of the audit work and the nature of audit findings. The College is receiving significant benefit from the internal audit function.

5.29 One of the primary roles of the internal audit function in any organization is to identify internal control weaknesses and make recommendations for improvements. This is being done effectively at the College. Ultimately, it is the responsibility of management to ensure that the issues and recommendations raised by the internal auditor are appropriately addressed. We believe that this needs to be improved at the College.

Recommendation 5.4

We recommend that the College ensure that internal audit recommendations are addressed in a timely manner.

Procurement

5.30 Compliance with ASH (academic institutions, school boards and hospitals) sector policy – The procurement activities of the College must comply with the Province of Nova Scotia's *Government Procurement Process - ASH Sector*. These guidelines require that the College's procurement practices and polices be open and fair and provide the highest degree of competition and value. The guidelines also require that procurement of goods over $25,000, services over $50,000, and construction over $100,000 be publicly tendered.

5.31 We examined the documented procurement policies of the College and concluded that the policies were consistent with the ASH sector guidelines. In addition, we tested a sample of procurement transactions with a value greater than the public tendering thresholds in the ASH sector guidelines. It appears, based on the file documentation provided, that there was a competitive procurement process followed which resulted in due regard for economy, but documentation supporting compliance with public tendering requirements was not kept. College management indicated that it has always been the practice to publicly tender, but documentation supporting the process was not retained prior to the past year.

5.32 Procurements with a value less than the ASH sector thresholds are subject to the tendering policy of the College, provided the policy complies with the general requirements of being open, fair and providing best value. Our review of the policy indicated that it includes appropriate provisions for openness, fairness and best value to the College. The Finance and Audit Committee is planning to review this policy in the spring of 2004 as part of its cyclical policy review process. This will continue to ensure the policies and procedures are current, relevant, and in the best interests of the College.

5.33 In addition to the testing described in paragraph 5.31, we also tested a sample of procurement transactions with a value below the tendering thresholds in the College's policy to ensure compliance and value had been obtained. Although the majority of transactions tested were in compliance, we did note some instances of possible non-compliance where purchases were deemed to be exempt from the College's procurement policy because they were emergency purchases, sole sourced, etc. In most of the exception cases we reviewed, the reason for the exemption had not been documented and approved according to the requirements of the *Government Procurement Process – ASH Sector*.

Recommendation 5.5

We recommend that the College document the rationale for exempting specific purchases from compliance with policy. All exceptions should be formally approved by appropriate management. The College should also maintain evidence of public tendering.

5.34 The College currently participates in several purchasing initiatives. In addition to its own list of standing offers for commonly purchased items, the College

also purchases, where advantageous, from the standing offers of the Provincial government and regional school boards. We support these cost saving initiatives, and encourage the College to continue to consider all opportunities.

Business Planning and Budgeting Processes

5.35 Establishment of goals and objectives - A strategic plan sets out an organization's priorities and long-term direction. A business or operational plan annualizes and provides detail of the more specific goals, priorities, resource requirements and activities to be undertaken to support achievement of the strategic plan. Within the governance model adopted by the College (see Exhibit 5.4), the Board is responsible for establishing strategic direction and the monitoring of desired outcomes. Management is responsible for the development and implementation of plans necessary to achieve those outcomes.

5.36 In May 1999, the Board approved the College's original strategic plan which included eight strategic directions. In September 2002, the Board approved five strategic initiatives linked to the directions approved in the 1999 plan. Both the final Board-approved 2003-04 budget and management's preliminary budget proposal to the Board in December 2002 include, at a summary level, management's plans to address the initiatives in the strategic plan. The preliminary budget proposal estimates the cost of the strategic initiatives at $2.9 million. The final budget indicates that, with the exception of the Development Initiative, funding for these strategic initiatives will come from *"within existing funding base or through efficiencies attained in the Academic and Information Technology areas."*

5.37 Although the budget information provided to the Board includes most elements of a business or operational plan, the information is included in several documents. No formal business or operational plan is prepared by management, although both the detailed Preliminary Budget Proposal and the Master Plan to address the College's Development Initiative include useful planning information. College management indicated that members of senior management are assigned responsibility for each specific initiative and progress is monitored through the management Executive Committee of the College. Senior management typically assigns responsibility for certain aspects of the initiative to staff and monitors progress on a regular basis. In some cases, a formal plan may be prepared by staff; in others no documented plan would exist.

5.38 The Board's focus is on results. The College has developed key performance indicators which are measured and reported to the Board. The College prepares a Preliminary Budget Proposal, including assumptions and options, which is submitted to the Department of Education. However, preparation of a business plan and distribution to key stakeholders such as the Department of Education and students would strengthen accountability for public funds. The key performance indicators would be a solid foundation for the business plan. The plan would ensure agreement on annual objectives and expected outcomes. Business plans are required throughout the Provincial public sector, including District Health Authorities and Regional School Boards.

5.39 During the College's development of its 2002-03 budget, management was required to cut $4.4 million from the operational profile to maintain a balanced budget. Budget documents provided to the Board included a list of several different areas within the operations of the College where cuts were to be made. Management indicated that a consultation process occurred. However, these cuts were required to be determined quickly and therefore the analysis supporting the decisions was not documented. A formal implementation plan was also not developed.

5.40 We recognize that it is difficult to prepare annual and longer-term plans with any certainty prior to knowing the amount of Provincial funding. Provincial funding represents a significant portion of the College's revenue. Although management has indicated that the College is provided with an estimate of its funding reasonably early in the budget process, the College is not officially notified until after the start of the budget year. We note that the Province has recently made a multi-year funding commitment to District Health Authorities and has begun negotiations with the universities to achieve multi-year funding agreements.

Recommendation 5.6

We recommend that the College prepare an annual business plan which links to the strategic plan and budgets approved by the Board and includes the College's key performance indicators. Business plans should set out operational priorities for the year and related financial information. These plans should be approved by senior management of the College and the Board.

Recommendation 5.7

We recommend that the Department of Education formally notify the College of its funding prior to the beginning of the fiscal year, and that the Department strive to establish a longer-term funding commitment.

5.41 Policies and practices for planning and budgeting - The College has well documented policies and procedures for the development of its budget. The Controller is primarily responsible for coordination and development of the budget. The process includes collaboration and input from various levels of management both at the campus level and within central office. The Peoplesoft system is used extensively throughout the process.

5.42 The budget process involves several levels of review including management at the campus level, Financial Services department, the College's Senior Leadership Forum, Audit and Finance Committee, as well as the Board. The College also makes a presentation to the Department of Education outlining the critical funding issues it is facing. The Board formally approves the final budget, usually during its April meeting. The College's budget process is *target* driven which means that budget

targets are established for campuses and other cost centers, and managers are expected to live within the allocated amounts. The emphasis is on overall target achievement rather than line-by-line amounts.

5.43 The process used by the College for its 2003-04 budget was comprehensive. We were not, however, able to conclude on the reasonableness of the assumptions and detailed calculations supporting the utilities figure in the budget due to a lack of documentation. Management indicated that the utilities assumptions were discussed and reviewed for reasonableness but written documentation was not prepared. Assumptions and detailed calculations supporting other expenditure line items we tested were reasonable. Budgets are more meaningful when the reader has written documentation of the assumptions underlying each line item.

Recommendation 5.8

We recommend that the College ensure that the assumptions and calculations supporting the utilities budget are appropriately documented.

Financial Management

5.44 Monitoring and reporting to management and the Board – The College has formal reporting processes in place for the campuses and for Central office. Each campus is required to report variance explanations and forecasts to the Central office on a quarterly basis. The information is published in the Quarterly Financial Report both on a campus level as well as on a consolidated basis. These reports are presented by management to the Board and the Finance and Audit Committee during regular meetings. Copies are distributed to Board members prior to the meeting to provide time for review and analysis.

5.45 Overall, the content of the financial information provided to the Board is adequate. We did note, through our review of Audit and Finance Committee minutes for the 2002-03 fiscal year, that committee members requested that quarterly reports be provided in a more timely manner. We also noted, for the same year, that College financial statements were included in the Province's Public Accounts – Volume 2 in draft form because the audited financial statements were not completed by the June 30, 2003 deadline. Management indicated that during 2002-03, there were key staff shortages which resulted in difficulty in preparing required information on time and that the Board does not meet during the summer to approve the financial statements. We noted that quarterly reports for the current fiscal year are being provided as requested by the committee.

5.46 Management at the campus level and central office have on-line access to financial information through the College's new financial information system. Each campus can review its own results and each department head can review the results of the department. Some of the Managers of Administrative Services at the campus level have found the format of reports in Peoplesoft to be somewhat difficult to use.

Central Office management is aware of the problem and taking action to make reports more user friendly.

Capital Planning

5.47 College Master Plan - In November 2002, the College finalized a plan which set out a comprehensive expansion program. The plan is designed to increase student enrollment by 2,500 full-time students to a capacity of approximately 10,000. The plan was prepared in consultation with a Joint Planning Committee comprised of representatives of the College, Departments of Education, Finance, Economic Development, Transportation and Public Works and Treasury and Policy Board.

5.48 The Master Plan calls for an investment of $38 million in Provincial campuses outside the Metro Halifax area and the construction of a new campus in Dartmouth at a cost of $60 million to replace the Bell Road site. The planning process included the use of consultants, detailed building assessments, criteria for priority setting, business plans, benchmarking of costs and designs, and the expected return on investment to both the Province and students. Overall, the Master Plan is a very comprehensive document supported by detailed analysis.

5.49 NSCC will be acting as the project manager for the construction of the new Dartmouth campus. The project is currently in the design phase and construction contracts have not yet been awarded. Although NSCC is acting as the project manager, the Province will make the payments and the title to the campus will be in the name of the Province.

5.50 Deferred maintenance - Building assessments were completed on the ten Provincial campuses in July and August 2002. The results of the assessments indicated that two-thirds of the 1.4 million square foot Provincial campus portfolio could benefit from renovations or upgrades. The assessments established a need for maintenance work on the Provincial campuses estimated at $83 million. The Master Plan investment in this area only totals $38 million. Some of the identified renovations are to correct violations of current building codes.

5.51 The building assessments include a list of deficiencies ranked according to priority. Priority "DS" items were defined as items which have been identified in the development strategy as needing immediate attention. Priority #1 items were defined as urgent needs to be completed within one year, such as correcting a safety problem, eliminating damaging deteriorations, or complying with environmental or other codes. Priority #2 items have been defined as potentially urgent deficiencies which, if not corrected within two years, could become urgent needs.

5.52 We inquired whether the College had prepared a document to summarize the status of the deficiencies detailed in the building assessments and actions planned to address them. We were informed by management that such a document had not been prepared but the deficiencies are being addressed on a campus by campus basis as renovations under the College's Master Plan are completed.

5.53 As we reported in our 1999 Report, the campuses and other buildings which are being occupied by the College are owned by the Province. Over the next five years it appears that a significant investment, in addition to the funding already announced by the Province, will be required to address the deferred maintenance problem at these campuses. We believe that the College, Department of Education, and the Department of Transportation and Public Works need to cooperate in the development of a plan to address this issue.

Recommendation 5.9

We recommend that the College develop a system to track the status of high priority building deficiencies and that the College and Departments of Education and Transportation and Public Works develop a plan to address deferred maintenance.

Governance and Accountability

5.54 College governance model - The powers and role of the College's Board are detailed in the Community College Act. On December 6, 2000 the Board approved the NSCC Governance Model which includes Board governance responsibilities and operating principles. The model was subsequently amended on April 18, 2001 (see Exhibit 5.4). There are different theories on the elements that should exist within a governance system for the function to be effective. We assessed the College's function against criteria established by the Canadian Comprehensive Auditing Foundation which set out the fundamental requirements of an effectively functioning Board.

5.55 Overall, the governance function at the College fully met the criteria which we used for assessment purposes. Some of the best practices warranting inclusion in this Report are the annual self-evaluations conducted by Board members, the use of the Balanced Scorecard Approach for reporting on key performance indicators, regular cyclical reviews of Board policies, annual Board planning meetings and the development of annual work plans for the Board and its committees.

5.56 Accountability to the Province - Prior to 1996, the Community College was a branch of the Department of Education. In 1996, the Community Colleges Act established an independent Board of Governors and the accountability relationship between the College's Board and the Province. The major accountability provisions in the Act are as follows:

- The Minister nominates a minority of College Board members. (Section 56)
- The College's programs of study are to be approved by the Minister. (Section 54(3))
- The Governor in Council must approve the tuition policy and the schedule of tuition fees. (Section 63(1)(o))

- The Board must submit its annual estimate of financial requirements to the Minister for approval. (Section 71)

- The Board must submit an annual report on the College's operations to the Minister including audited financial statements and the Minister must table the report in the House. (Section 72)

- The Minister has the power to appoint an administrator for the College if there are significant problems (Section 82) or disestablish the Board (Section 84).

- The Board may own property or use Crown property. Crown property can be transferred to the College. (Section 66)

5.57 Certain of these accountability provisions such as submission of estimates and an annual report including audited financial statements, and the nomination of Board members are standard. However, others are unique to the College and limit the independence of the Board in its ability to make decisions and govern the College. The provisions governing the College are different from those governing university Boards which also receive significant funding from the Province but are not subject to the same restrictions. Since 1996, the College has grown significantly and improved its systems and practices. The implementation of the Master Plan over the next few years will lead to further growth. As noted above, the governance function is strong. As the College continues to grow and mature, the Province and College should review and update the accountability provisions to ensure they remain relevant. For example, the development of a business plan and formal reporting on achievement of target outcomes would add significant value to the accountability relationship. The ownership of buildings and appropriate degree of independence for the College over the long-term should also be discussed.

Privacy Legislation

5.58 The Personal Information Protection and Electronic Documents Act came into effect on January 1, 2004. The purpose of the act is to provide Canadians with a right of privacy with respect to personal information that is collected, used or disclosed by an organization. PIPEDA is applicable to all organizations (including individuals, corporations, associations, partnerships and trade unions) that collect, use, or disclose personal information in the course of commercial activity. The College obtained legal advice and has concluded that aspects of its operations constitute commercial activity and the College is, therefore, required to comply with this legislation.

5.59 To comply with the Act, the College appointed a Chief Privacy Officer who is accountable for compliance-related issues. The College has also developed a new privacy council consisting of three individuals responsible for the implementation and ongoing administration of the Act. In December 2003, the council drafted a PIPEDA implementation plan to address the requirements in the legislation. As of mid-January, all legislated requirements had been implemented with the exception of the establishment of an appeals process to handle challenges by individuals to the College's compliance with the Act.

Follow-up from 1999 Audit

5.60 During our audit, we followed up on significant findings from our 1999 Report related to governance, accountability, strategic planning, student enrollment, application of resources and fixed assets. Based on discussions with management and a review of relevant documentation, we noted that the majority of our findings have been appropriately addressed. The following are the most significant recommendations which have not been fully addressed:

- The Department and College have not developed a methodology to be followed in determining the appropriate funding to be provided by the Province to meet the College's requirements. This causes considerable difficulty for the Minister, the College and the Department in planning financial affairs.

- The Department of Education, in consultation with the College, has not defined expected outcomes for the Province's funding to the College including expectations regarding accessibility, enrollment levels, and costs to be borne by students.

- At the time of incorporation, the Province transferred title to all furniture, fixtures and equipment to the College. While ownership of the land and building has remained with the Province, no formal agreements on the term and use of facilities have been established. Without formal agreements, expenditure classifications can be unclear. The Board should negotiate an agreement with the Province regarding ownership and/or terms and conditions of use.

5.61 Our audit procedures in this area included discussions with both College and Department of Education management as to the status of the findings indicated above. Department of Education management informed us that the College is currently undergoing significant change and that implementation of a funding methodology at this time would be premature. Department management also indicated that they were quite involved in the development of the College's Master Plan which is based on future enrolments and accessibility. College management noted that several attempts have been made to formalize an agreement with the Department of Transportation and Public Works regarding terms and conditions of use of Provincially-owned buildings but to date no agreement has been reached. Financial responsibility for deferred maintenance is a key issue that will need to be settled before building ownership can be resolved.

CONCLUDING REMARKS

5.62 Overall, the College appears to be well managed and governed, although we have made several recommendations for improvement.

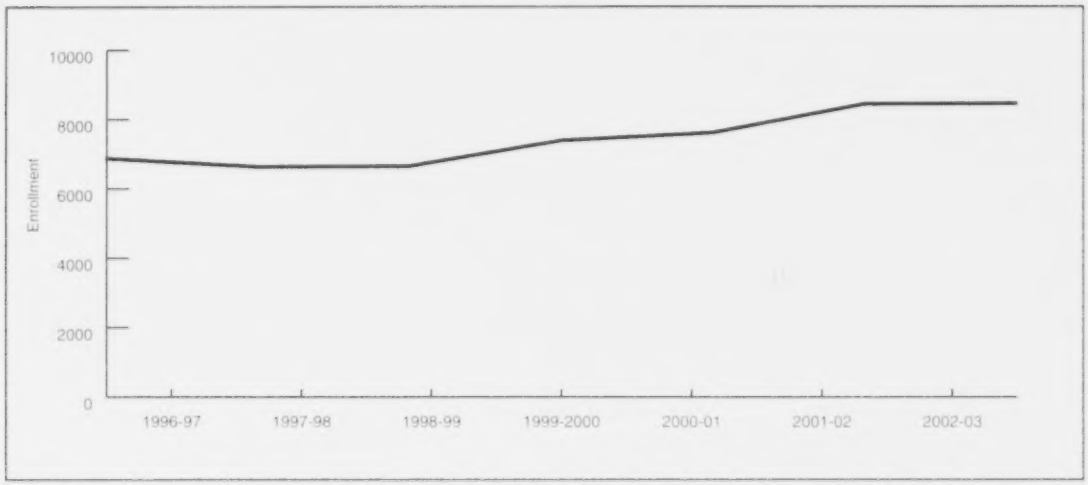
5.63 We identified certain weaknesses in internal controls which require the College's attention. With the exception of the weaknesses noted, overall the system of

internal controls at the College is adequate. We believe that the existence of an internal auditor is an important part of the management control framework and College management needs to establish a process to ensure that the auditor's recommendations are addressed on a timely basis.

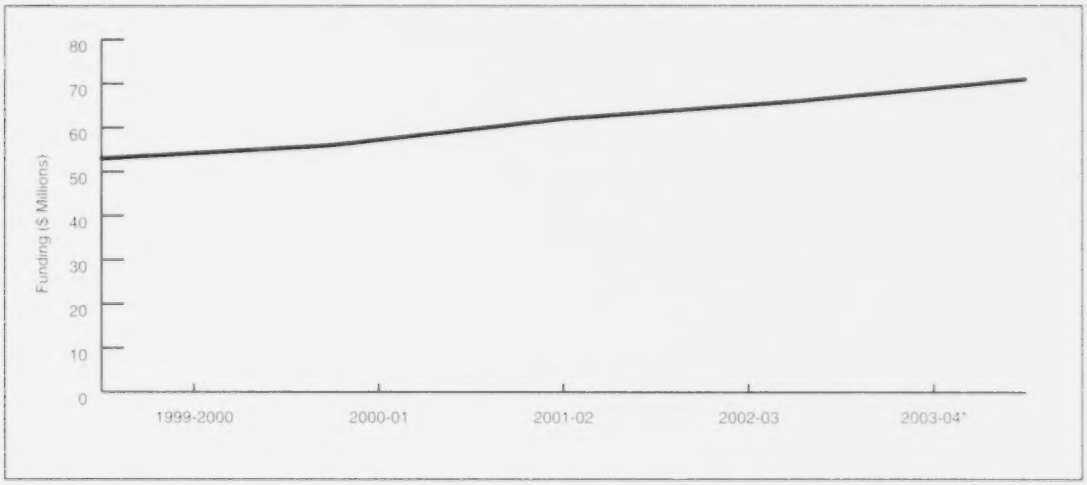
5.64 Building assessments conducted on Provincial campuses approximately two years ago identified a significant deferred maintenance problem. The College and the respective government departments need to develop a plan to address this issue.

5.65 We made significant recommendations in our 1999 audit including the need for a funding methodology and agreement on ownership and use of the buildings that have not yet been acted upon by the Province and the College. Financial responsibility for deferred maintenance is a major issue that will need to be resolved before transfer of buildings to the College can occur.

bit 5.1 **College Full-Time Enrollment by Year**



ibit 5.2 **College Provincial Operating Funding**



* Estimate

College Revenue Sources and Expenditure Categories ($ millions)

Exhibit 5.3

REVENUE	2002-03	2001-02
Province of Nova Scotia	$ 66.9	$ 60.8
Tuition Revenue	14.2	13.6
Customized and Continuing Education	11.5	10.7
Government of Canada	7.4	8.4
Other Revenue	12.9	12.5
Deferred Revenue Related to Capital Assets	1.0	.9
TOTAL REVENUE	**$113.9**	**$106.9**
EXPENSES		
Salaries and Benefits	$ 74.8	$ 70.4
Operational Supplies and Services	20.4	19.8
Equipment, Rentals, and Other Administration	8.0	6.6
Utilities	7.4	7.1
Amortization	2.9	2.9
TOTAL EXPENSES	**$113.5**	**$106.8**

Source: *Nova Scotia Community College March 31, 2003 Audited Financial Statements.*

Note: *Other revenue includes sources such as the bookstore, food sales, lodging, interest, recoveries and apprenticeship training.*

ıibit 5.4 Nova Scotia Community College Board Governance Model

Board Governance Responsibilities

1. Affirm Mission

2. Approve goals and strategic directions

3. Approve key policies and implementation of programs
   - Financial Management
   - Risk Management (including environmental, health and safety)
   - External Communication

4. Monitor performance and ensure accountability
   - Define clear goals and expectations with the Senior Management Team
   - Define reports required from management and frequency
   - Review regular reports from Senior Management
   - Evaluate outcomes against the goals and expectations
   - Board conducts a self-evaluation

5. Assist in obtaining resources needed to accomplish mission
   - Government relations (including Auditor General)
   - External communication

Board Operating Principles

1. The Board makes informed decisions
   - All Board members understand the organization and what matters
   - Education sessions are regularly scheduled

2. The Board focuses on what matters
   - "What matters" drives the frequency, format and duration of Board and Committee meetings

3. The Board Structure is organized around what matters
   - A combination of Ad Hoc and Standing Committees will be used

4. The Board functions as a team and speaks with one voice

5. The Board maintains regular communication with key stakeholders

6. Individual Board members represent all people of Nova Scotia and no particular interest, community or constituency.

NOVA SCOTIA COMMUNITY COLLEGE'S RESPONSE

In response to the 2004 Auditor General's Report on the audit of the Nova Scotia Community College, we believe it is important to acknowledge the significant role previous reports have played in the development of the NSCC. In both 1993 and 1999, the Office of the Auditor General provided recommendations that have assisted the College in measuring its progress towards becoming a modern national-calibre institution. We also believe that the Auditor General's reports have provided Nova Scotians with a greater understanding of the College and its role in the economic and social development of the Province.

Although the nature and scope of the 2004 audit differed from previous years, we believe the Auditor General has provided the College with important advice and feedback on our systems and control procedures. We are very pleased that the Auditor General has tabled an overall positive assessment re our compliance with each of the main areas surveyed in the report.

In the areas in which the Auditor General has provided specific recommendations, we also feel it is important to document our initial observations and/or response.

In our view, seven of the nine recommendations, fall into the category of procedure, policy, or management practice. These will be addressed by management and the Board of Governors as we move toward improving our systems to better serve students, staff and communities.

The following five recommendations have been, or are in the process of being addressed through procedural, process or policy change. We are confident that these changes will enhance the existing level of internal control throughout the organization.

Recommendation 5.1
We recommend that the College prepare monthly bank reconciliations approved by management and that the physical security over blank and printed cheques be improved. We also recommend that the College's student accounts receivable reconciliation problems be addressed.

Recommendation 5.2
We recommend that the College improve its process for identifying students with accounts in arrears.

Recommendation 5.4
We recommend that the College ensure that internal audit recommendations are addressed in a timely manner.

Recommendation 5.5
We recommend that the College document the rationale for exempting specific purchases from compliance with policy. All exceptions should be formally approved by appropriate management. The College should also maintain evidence of public tendering.

Recommendation 5.8
We recommend that the College ensure that the

assumptions and calculations supporting the utilities budget are appropriately documented.

We are examining options for the following two recommendations dealing with policies governing the safe-guarding of assets, back up and recovery, and the format of an annual Business Plan to ensure they meet the needs of the institution, the Board, and the users of the College's services; while at the same time evaluating the economy and effectiveness of such processes.

Recommendation 5.3

We recommend that the College develop formal policies governing the safeguarding of personal computers and related equipment and, for systems maintained internally, the backup of data files and disaster recovery.

Recommendation 5.6

We recommend that the College prepare an annual business plan which links to the strategic plan and budgets approved by the Board and includes the College's key performance indicators. Business plans should set out operational priorities for the year and related financial information. These plans should be approved by senior management of the College and the Board.

We believe that the final two recommendations are most critical to the long-term success of the NSCC. The relationship between the Province and the College regarding accountability, governance, deferred maintenance and a longer-term funding commitment are key issues for the institution. We agree that these relationships must be reviewed by the College in consultation with its funding partners within the Departments of Education and Transportation and Public Works (and perhaps other government departments).

Recommendation 5.7

We recommend that the Department of Education formally notify the College of its funding prior to the beginning of the fiscal year, and that the Department strive to establish a longer-term funding commitment.

Recommendation 5.9

We recommend that the College develop a system to track the status of high priority building deficiencies and that the College and Departments of Education and Transportation and Public Works develop a plan to address deferred maintenance.

Finally, it is our intention to incorporate the findings of the 2004 Auditor General's Report into our strategic and operational planning as we continue to implement the Master Plan announced by government on March 28, 2003.

6 DISTRICT HEALTH AUTHORITIES 1, 2 & 3 - SHARED ADMINISTRATIVE SERVICES

BACKGROUND

6.1 The Health Authorities Act was proclaimed effective December 21, 2000. It gave the Governor in Council the authority to establish health districts and District Health Authorities (DHAs) to govern them. The basis for the move to District Health Authorities was the 1999 *Report of the Task Force on Regionalized Health Care*.

6.2 Nine health authorities were established, effective January 1, 2001, under the District Health Authorities General Regulations, to replace the previous four Regional Health Boards and three Non-designated Organizations. Three health authorities were established from the former Western Regional Health Board (RHB):

- DHA 1 - South Shore - Lunenburg and Queens counties; operations include, but are not limited to, Fishermen's Memorial Hospital, South Shore Regional Hospital and Queens General Hospital. Received grants of $39.2 million from the Department of Health in 2002-03.

- DHA 2 - South West Nova - Shelburne, Yarmouth and Digby counties; operations include, but are not limited to, Digby General Hospital, Roseway Hospital and Yarmouth Regional Hospital. Received grants of $47.6 million from the Department of Health in 2002-03.

- DHA 3 - Annapolis Valley - Annapolis and Kings counties; operations include, but are not limited to, Annapolis Community Health Centre, Eastern Kings Memorial Community Health Centre, Western Kings Memorial Community Health Centre, Soldiers Memorial Hospital and Valley Regional Hospital. Received grants of $61.3 million from the Department of Health in 2002-03.

6.3 Under the predecessor Regional Health Boards (RHBs), there had been only one administrative structure for the Western RHB. The Department of Health (DOH) directed that the arrangements for finance, materiel management, information technology and human resources were to be continued under the District Health Authorities (DHAs) and that no changes were to be made without DOH approval.

6.4 DHA 3 hosts the shared financial services in Kentville. Materiel management is hosted by DHA 1 in Lunenburg and information technology and human resources are hosted by DHA 2 in Yarmouth.

6.5 After the formation of the DHAs, the DHAs and Department of Health became concerned with certain aspects of the shared financial services arrangement. In 2002, two consulting firms were engaged, one by the Department of Health and one by the DHAs, to review the arrangements and make recommendations. The reports were issued in 2002. Subsequently, consultants were engaged by the three DHAs to review the other services shared.

6.6 This was our first audit of these DHAs. The major purpose of the audit was to determine whether the shared arrangements for financial services and materiel management were resulting in adequate management of these important areas.

RESULTS IN BRIEF

6.7 The following are the principal observations from this audit.

- External consultants were engaged to review all shared services. Many of the recommendations of the shared financial services reviews have been implemented and the status of implementation has recently been reported to the DHA Boards. Generally, the reviews reaffirm the advantages and economies to be achieved through a shared services approach and that a move away from this concept would not be advantageous. We saw evidence that staff and management are also committed to the concept of shared financial services.

- We recommend that the DHAs finalize the shared services agreement and that it include clearly defined responsibilities, and service or performance standards with provisions for required reporting on achievement.

- Our audit of the financial management area indicated that the DHAs have implemented reasonable processes for business planning, budgeting and periodic monitoring.

- Business plans and funding levels for fiscal 2003-04 were continually updated by the Department of Health and not finalized until December 2003 - after 75% of the fiscal year had expired. Funding levels and business plans should be confirmed prior to commencement of the fiscal year to ensure that proper planning can occur.

- During 2003-04, the DHAs entered into medical equipment leases for endoscopes. We understand that this type of arrangement is becoming more prevalent in the acute care sector as entities search for ways to replace aging capital equipment in an environment of scarce capital funds. Because the DHAs follow accounting principles for not-for-profit organizations, which are not entirely consistent with government accounting principles, there is a need to carefully analyze the accounting treatment for leases under both sets of accounting principles to ensure they are properly reflected in the financial statements of the DHAs and the government's consolidated financial statements. The Departments of Health and Finance are currently seeking information from all DHAs to determine the nature and extent of leased equipment transactions.

- Although materiel management has formal policies, there is no reference to the processes to be followed when there are exceptions to the usual competitive process. Approval and documentation of such exceptions are necessary to ensure that there is compliance with the spirit of the government procurement policy throughout the DHAs.

AUDIT SCOPE

6.8 The objectives of this assignment were to:

- determine the extent to which DHAs 1, 2 and 3 share services, and assess whether the arrangements for financial services and materiel management are resulting in adequate management of these areas;
- assess the accountability relationship between the shared financial services unit and the Boards and management of the DHAs;
- review and assess financial management at the DHAs;
- determine the quality assurance systems and control procedures in place over the data submitted to the Canadian Institute for Health Information (CIHI);
- review reports from consultants and the Canadian Council on Health Services Accreditation; and
- determine compliance with the *Government Procurement Process - ASH Sector* (for Academic Institutions, School Boards and Hospitals).

6.9 Audit criteria were taken from recognized sources including the Canadian Council on Health Services Accreditation, the National Quality Institute's *Canadian Quality Criteria for the Public Sector*, the Canadian Institute of Chartered Accountants Criteria of Control Board's *Guidance on Control*, the *Nova Scotia Government Procurement Process - ASH Sector*, and the *Health Authorities Act*.

6.10 We visited each of the three DHAs and interviewed staff and management responsible for the areas audited at both the individual DHAs and shared services host levels. We reviewed reports from external consultants, and external auditors and reviewed their files where necessary. We examined relevant documentation and tested certain transactions to ensure internal controls were adequate and compliance requirements were met.

PRINCIPAL FINDINGS

Shared Services and Accountability

6.11 Formal agreement - A shared services agreement was prepared in December 2000, but it expired in December 31, 2001 and has not yet been replaced. It included all shared services, and provided that the initial allocated cost of the services should not exceed the costs budgeted by the Western Regional Health Board and should be shared among the DHAs. Any variance between budgeted and actual costs was to be shared among the parties.

6.12 Responsibility for completion of a draft shared services agreement, to be ratified by the Council of Chief Executive Officers (CEOs), was assigned to the Chief Executive

Officer of DHA 3, following meetings involving CEOs and the Department of Health. The replacement agreement has not yet been completed due to many factors including the completion of special reviews by external consultants, vacancies and turnover in Chief Executive Officer and Chief Financial Officer positions, concerns relating to Directors and Officers Liability for provision of shared services, and strategic planning exercises. A replacement agreement is being developed and needs to be finalized.

6.13 The expired agreement did not include service or performance standards. The performance standards, targets and required reporting should be included in the agreement, the shared services policy and job descriptions. This would help to ensure that there is a common expectation regarding the standards to be achieved and appropriate accountability.

6.14 The CEOs have met several times to discuss issues, challenges, problems and opportunities facing tri-district services. Documentation of decisions flowing from these meetings should be improved.

Recommendation 6.1

We recommend that the shared services agreement be finalized and that it include service or performance standards with provisions for required reporting on achievement.

6.15 Recommendations from external reviews - External consultants were engaged to complete reviews of all shared services areas. Many of the recommendations of the shared financial services reviews have been implemented and the status of implementation has recently been reported to the DHA Boards. All three DHAs now have a Director of Financial Services position and the incumbent is on-site four days per week. This position at each DHA is assigned ownership of the annual business planning and budget preparation process. The processing of accounting data and preparation of financial reports is done on a shared basis in Kentville.

6.16 Generally, the reviews reaffirm the advantages and economies to be achieved through a shared services approach and that a move away from this concept would not be advantageous. We saw evidence that staff and management are also committed to the concept of shared financial services.

6.17 Allocation of expenses - Common shared services expenses are allocated according to a methodology established in 2000. The allocation of expenses is reviewed annually by the external auditors. The structure of certain shared services has changed since established under the Western Regional Health Board. The DHAs have noted that there are some expenses included in the allocation which are directly associated with individual DHAs rather than shared services. The original agreement provided for adjustment of costs based on mutual agreement of all parties and it would be appropriate for direct costs to be borne by the DHA which receives the benefit. Management indicated that they are in the process of reviewing cost allocations for finance, materiel management and information technology. A similar review of human resources cost allocations is planned.

Recommendation 6.2

We recommend that the DHAs and the Department of Health review the allocation methodology for expenses related to shared services to ensure that direct costs are borne by the DHA which receives the benefit of the service.

6.18 Overall, our review of the consultant reports and other documents indicated that there have been significant improvements in shared services arrangements and in accountability. However, as noted above, there is a need to include expectations and service standards for shared services in formal agreements and to report on achievement.

Financial Management

6.19 Strategic planning – All three DHAs have made progress in establishing strategic plans. All have mission, vision and value statements and key strategic directions have also been determined. DHA 3 released its strategic plan in January 2003 and the first status report on implementation was presented to the Board in September. DHA 2 has recently released its strategic plan publicly. The DHA 1 strategic plan is yet to be made public. The nature and timing of status reporting on implementation of the plans is to be determined. We encourage each DHA to ensure that its strategic plan is linked to its annual plan and budget.

6.20 Business planning – In late fall each year, the Department of Health advises the DHAs of the Department's financial expectations for the upcoming year. The Department of Health, in October 2002, advised the DHAs to maintain a status quo budget, identify cost drivers and not to plan expanded or additional new programs or additional staff in excess of previously approved arrangements. In addition, DOH achieved a significant milestone when it established multi-year funding targets for DHAs. The instructions to the DHAs included a 7% increase in funding for non-staff operational costs in each year of the newly established three multi-year funding targets. This information formed part of the assumptions used by the DHAs in business planning for 2003-04.

6.21 The DHAs submitted business plans to DOH as required. Business plans and funding levels for fiscal 2003-04 were continually updated by DOH and finalization did not occur until December 2003 – after 75% of the fiscal year had expired. The total increase in funding approved by DOH for the three DHAs was $7.3 million which is projected to permit the DHAs to break even for the year. The DHAs do not have accumulated deficits. Funding levels and business plans should be confirmed by DOH prior to commencement of the fiscal year to ensure that approved plans can be carried out.

Recommendation 6.3

We recommend that funding levels, business plans and budgets should be approved by DOH prior to commencement of the fiscal year.

6.22 Although there are documented instructions to staff, broader policies surrounding the business planning and budget preparation process are not currently documented. Policies should include a timetable, assumptions, sensitivity analysis, operational plans, a review and challenge process and independent quality control sign off.

6.23 Responsibility for satisfactory completion of the business planning and budgeting process is assigned to management under direction of the Chief Executive Officer through the bylaws. The Finance Committee and the boards are fully informed of the business planning activities and funding requirements. Senior management and staff responsibilities in the budgeting area are clearly assigned in the job descriptions. Appropriate management and staff were provided with the instructions and budget package for the development of the 2003-04 business plan budgets. These budgets, which were part of the 2003-04 business plan submitted to DOH prior to December 31, 2002, formed the initial internal budgets.

6.24 Internal budgeting - In the spring of 2003, all three DHAs conducted budget review and challenge processes involving the director of finance, each program vice-president, director and budget manager. Formal, approved departmental budgets were communicated to managers in late July or early August. The review and challenge and communication of approved departmental budgets should occur prior to commencement of the fiscal year.

6.25 The budgets were also discussed at senior management meetings. However, the review and challenge process was not well documented. There have been recent management changes at the Chief Executive Officer and Director of Finance level at DHA 1 so we found it difficult to determine exactly what the senior management challenge process had been.

6.26 At all three DHAs, staff informed us that Finance staff ensured mathematical accuracy of the budget and supporting spreadsheets, and the accuracy of the entry of budget information into the financial systems. Documentation of these quality control procedures should include formal sign off. Our testing of the supporting documentation, management trail and mathematical accuracy found no errors although there was no formal sign off.

6.27 Legislation does not permit the DHAs to incur deficits. The appropriate parties (budget managers, directors and senior management) are involved in development of initiatives to balance the budget. When cost savings initiatives were required, operational plans were prepared.

6.28 Capital budgeting process - Capital requests are prioritized according to established criteria and forwarded to the Capital Review Committee for review and approval. Funds are applied first to emergency situations; unused funds are then released according to priority rating as the fiscal year progresses.

6.29 The Capital Review Committee's prioritized list for the three DHAs totals $29.3 million for 2003-04. Of this, the Department has funded $7.1 million, the Federal government has funded $1.7 million, the foundations and auxiliaries have funded $0.7 million and DHAs have transferred $0.7 million from operations

funding. The amount of dollars earmarked from operations is a historical carry forward from the RHB when capital requests were funded separately. The total funding of $10.4 million from all sources resulted in unfunded priorities of $18.9 million. Adequacy of capital funding continues to be an area which requires more collaboration between the Department and the DHAs.

6.30 Although it is inevitable that historical funding patterns and available funding play a role in the annual allocation process, the DHAs should strive to ensure that the capital budgeting process is based on strategic plans and needs to the extent possible.

6.31 Monitoring and forecasting - Although the financial situation is monitored by the Boards and management, there are no policies to govern the monitoring function. Policies should include clear definition of financial information reporting formats; timing requirements; definition of thresholds for when variances require explanation; forecasting requirements; and sign off.

Recommendation 6.4

We recommend the completion of a financial policy manual including policies surrounding the business planning and budget preparation process and periodic monitoring. Policies should include a quality assurance process for the budget.

6.32 Monthly financial monitoring reports are provided to budget managers showing variance of actual to budget at the account level. Summaries are provided to the vice-presidents. Shared Financial Services has decreased the time required for preparation of monthly financial reports.

6.33 Budget managers are required to provide variance explanations within two weeks to the responsible vice-president and the Director of Finance. At DHAs 2 and 3, budget managers include a forecast to year end. The detailed forecasting procedures at DHA 1 are being developed. Financial reporting to senior management and the board at all three DHAs includes written explanations of significant variances in revenue and expense areas.

6.34 DOH requires and receives a summarized monthly forecast document showing actual year-to-date and forecast to year end. This document is also provided to the Finance Committee. In addition, the Department is provided with an electronic upload of all financial and statistical data contained in the general ledger on a quarterly basis. The preparation of regular, written forecasts at a more detailed level would support and enhance the forecast information provided to the Department of Health.

6.35 Financial and payroll information systems - Management of the three DHAs commented on the fragile state of the DHAs' payroll and human resource information systems. These are old systems which do not have the functionality of current technology and maintenance is a challenge. The government has decided to implement SAP R/3 in DHAs and an initial amount of $2 million is included

in the Province's 2004-05 Estimates. The government plans to implement SAP in all DHAs and will be funding the initiative over a three-year period. Detailed plans for management and implementation of the initiative have not yet been prepared, but the Department of Health has indicated that DHAs 1, 2 and 3 will be the first to implement the new system. Although SAP does have a human resource module, the government has not made a final decision on whether that module will be implemented. The government plans to do further study on whether that particular module can meet the specialized needs of the health sector.

6.36 Financial statement audit - The DHAs' annual financial statements are audited by a public accounting firm. The external auditors prepare an annual management letter for the Board, and status of implementation of recommendations is reported through the Finance Committee to the Board. We reviewed the auditor's working papers for the year ended March 31, 2003 and found no additional matters to be brought before the House of Assembly.

6.37 Leased medical equipment - During our audit, we encountered an issue with respect to medical equipment leases. During 2003-04, the DHAs entered into leases for endoscopes. The leased equipment replaces aging equipment owned by the DHAs and provides for periodic replacement of the medical equipment over a five-year term. We understand that this type of arrangement is becoming more prevalent in the acute care sector as entities search for ways to replace aging capital equipment in an environment of scarce capital funds.

6.38 The rental payments are entirely based on the number of procedures performed, not on a set amount per month or year, and are appropriately described as 'contingent rentals'. This would be similar to a car lease where the payment was calculated monthly based on the number of kilometers driven rather than a fixed monthly amount. The proposed accounting for the leases was reviewed by the financial statement auditors and the DHAs decided to account for these leases as operating leases. This policy is consistent with the Canadian Institute of Chartered Accountants' accounting recommendations for not-for-profit organizations (NFPs). The process followed by the DHAs in deciding on accounting treatment of the leases was appropriate for the DHAs' financial statements.

6.39 However, not-for-profit accounting standards are not entirely consistent with government accounting standards issued by the Canadian Institute of Chartered Accountants Public Sector Accounting Board (PSAB). The choice of accounting standards could result in a different conclusion about whether these are operating or capital leases. For example, under PSAB, contingent rentals are included in the calculation of minimum lease payments if the number of procedures to be performed can be estimated, whereas under NFP standards, contingent rentals are always excluded from the minimum lease payment calculation and are expensed.

6.40 Because the DHAs are Government Service Organizations, the DHA financial statements are consolidated with those of the Province and amounts must be adjusted, during the consolidation process, to correspond with PSAB pronouncements.

6.41 We discussed this issue with staff of the Departments of Health and Finance, and the Province is now asking all DHAs for information about leased equipment to gain information about the nature and extent of leased equipment transactions, and the related accounting policies.

6.42 The DHAs' financial statement auditors, in a July 2003 letter to management, stressed the need for appropriate review and analysis of proposed lease transactions and the related accounting policies. We concur with this observation.

6.43 Also, under Section 59C(1) of the Provincial Finance Act, DHAs must seek Governor in Council approval for *financial obligations* including capital leases. *Financial obligations* are broadly defined and, without further clarification in legislation or Regulations, may be interpreted to include all leases extending beyond the current year - regardless of whether they are accounted for as capital or operating. Section 59C(3) gives the Governor in Council the right to make Regulations exempting organizations or programs from this requirement but no exemptions have been made. We believe that, under the current legislation, all DHA leases are required to be approved by Order in Council. We acknowledge that this may not be practical and that further clarification of the intention of the legislation is required.

Recommendation 6.5

We recommend that all proposed lease transactions be thoroughly analyzed by DHA management to determine due regard for economy and efficiency, compliance with government legislation and policies, and appropriate accounting treatment in the financial statements of the DHA and the government's financial statements.

Systems for Collection of CIHI Data

6.44 Background - The Canadian Institute for Health Information (CIHI) is a not-for-profit corporation that provides health information on a national basis. All of Nova Scotia's publicly-funded health facilities are required by way of a provincial/territorial bilateral agreement to submit health data to CIHI. This data is then used by CIHI to develop and maintain national health information standards, databases and registries. CIHI also reports summarized data to the provinces and facilities for use in managing the health system.

6.45 On September 30, 2002 the Department of Health released a report on the Province's health indicators in conjunction with a commitment by all provincial jurisdictions and the Federal government to issue reports on comparable health indicators. This document was titled *Reporting to Nova Scotians on Comparable Health and Health System Indicators: Technical Report*. We provided an audit opinion on the accuracy of the data and adequacy of the disclosure contained in this technical report. A second report is to be issued by all jurisdictions in November 2004.

6.46 For the 2002 Report, we could not provide assurance on reported indicators originating from CIHI's Discharge Abstract/Hospital Morbidity Database due to

a lack of documentation of CIHI quality assurance processes at the national level. Since the source of data in the Discharge Abstract/Hospital Morbidity database is data from hospital patient records which are extracted and submitted to CIHI by individual hospitals, we decided to examine the controls over this process at the three DHAs. Our objective was to review the controls and quality assurance processes in place at the entity level over data collected and submitted to CIHI.

6.47 Observations - The health records divisions within each DHA are responsible for abstracting data from patient charts and submitting it to CIHI monthly. Our testing of the DHAs' various edit checks and controls over the abstraction process revealed that the edit checks and controls are operational and functioning properly.

6.48 However, due to CIHI's difficulties in implementing a change in coding methodology from ICD-9 to ICD-10, the DHAs had not been able to submit any health information to CIHI for processing since March 31, 2003. CIHI needed to revise its systems to deal with the new coding methodology and experienced problems. CIHI requested hospitals to delay data submissions until these problems could be solved. The revision also required hospitals to upgrade abstracting software to incorporate the revised CIHI grouping methodology. The supplier of the software has only recently performed the required work at the DHAs. At the time of writing this Report, the DHAs were in the process of submitting the 2003-04 data which had been delayed.

Accreditation

6.49 The Canadian Council on Health Services Accreditation (CCHSA) has recently begun to accredit DHAs rather than individual hospitals and plans to conduct an accreditation review on the DHAs every three years. The first review of the three DHAs included in our audit was performed in 2002. The process was based on a self-evaluation performed by the DHA teams in 2002 which was followed by a survey visit. Each of the DHAs received accreditation with the requirement to report on the status of implementation of the recommendations; in February 2004 for DHAs 1 and 3 and August 2004 for DHA 2. This is the second highest of the five possible outcomes from an accreditation.

6.50 The review recommendations focussed on various topics such as community health needs assessment; ethics issues; strategic planning; quality monitoring and improvement; risk management; regular fire drills, disaster planning; and environmental issues.

6.51 Each DHA has submitted a response covering the status of implementation of the recommendations to CCHSA for review and consideration.

Procurement

6.52 Procurement for the three DHAs is performed by shared Materiel Management which is located in Lunenburg. Materiel Management recently completed an agreement with a national co-operative health buying group to achieve economies. In addition, this arrangement will also simplify many of the materiels

management policies as the buying group will assume the tendering requirements. Management expects that the arrangement will result in savings of 10%, and we encourage management to monitor whether the expected savings are achieved.

6.53 The government's procurement policy for the hospital sector requires the entity to maintain appropriate records to support the rationale for sole-sourced or alternative procurement transactions or tenders awarded to other than the lowest bidder. Although the DHAs have procurement policies which are consistent with the Government Policy, there is no specific policy that deals with the required approval or reporting of exceptions to the usual procurement process. A policy relating to exceptions is necessary to ensure the spirit of the government procurement policy is complied with.

6.54 We selected a total sample of 30 procurement items from all three DHAs for testing. We found the following exceptions:

- two instances where the procurement process was not managed by materiel management and we were unable to determine that the contract was awarded to the lowest competent bidder;
- three instances where contracts were extended without a competitive process until either the effective date of the new agreement with the national buying group or the expiry date of existing agreements at the other DHAs to facilitate bulk purchasing; and
- two instances where a competitive process was not followed because of medical preferences.

6.55 Management indicated that they had approved the exceptions to the requirement for a competitive process, but the rationale for each exception was not documented and the circumstances did not fit the Specific Circumstances Where Alternative Procurement Practices are Permitted (*Government Procurement Process - ASH Sector*, page 7). Management indicated that the DHAs are working towards obtaining common agreement on medical procurement to reduce the number of exceptions because of medical preferences. Participation in the national cooperative health buying group should help to ensure that a competitive process is followed for those procurements in the future.

6.56 With numerous moves and changes in materiel management over the past several years, some documents have been destroyed or lost. Materiel management should implement a records retention policy, as required by the government procurement policy.

Recommendation 6.6

We recommend the DHAs draft additional procurement policies which comply with the *Government Procurement Process - ASH Sector*. These should include a policy on alternative procurement practices and a records retention policy.

6.57 A Canadian health care management and consulting firm was engaged to conduct an operational review of materiel management. A draft report was presented in August 2003. The review includes the following two key comments:

- *"It is clear that the shared services environment for Materiel Management is more beneficial than District Materiel Management organizations. This is primarily driven by expense leverage, savings opportunities associated with volume, sharing of expertise and service capabilities. The Nova Scotia Ministry of Health as well as many other health care organizations across Canada, and also staffs within the tri-districts all recognize the benefits of a shared Materiel Management Service. A move away from this model would be considered a backward direction."* (page 81)

- *"The direction and commitments from the CEOs with respect to shared services has been somewhat lacking in the past. Assuming a continuation of the shared service environment for Materiel Management, it is imperative that the tri-district senior management (Boards, CEOs and VPs) agree on a philosophy and vision of what the expectations are of each shared service and the shared services collectively. There must be clear direction, commitment and support for these services. This is a critical change that must occur."* (page 81)

CONCLUDING REMARKS

6.58 The benefits of shared services for DHAs 1, 2 and 3 have been reinforced by several external reviews. To achieve the maximum benefit from the services and adequate accountability, a shared services agreement needs to be finalized. The agreement should include clearly defined responsibilities and service standards and provisions for reporting on achievement.

6.59 Our audit of the financial management area indicated that the DHAs have implemented reasonable processes for business planning, budgeting and periodic monitoring.

6.60 DHAs face challenges in obtaining funding to replace aging capital equipment. This has led to the decision to lease certain medical equipment. All potential lease agreements need to be appropriately analyzed by management to ensure due regard for economy and efficiency, compliance with government legislation and policies, and appropriate accounting treatment in both the DHAs' and the government's financial statements.

DISTRICT HEALTH AUTHORITIES 1, 2 AND 3'S RESPONSE

The Districts are generally supportive of the findings and recommendations made in this Report. The DHAs were pleased that your audit was able to confirm that reasonable processes for business planning, budgeting and periodic monitoring were implemented, and you noted significant improvement in shared services arrangements and in accountability. The DHAs look forward to making improvements in the processes as identified in the recommendations contained in this Report.

Comments are limited to Recommendation 6.5.

- DHAs must comply with GAAP whereas the Province must comply with PSAB. The accounting for leases differs between the two principles. The DHAs agree that a dual evaluation of operating leases must occur. When a lease is determined to be capital for the province's purposes, the DHAs' accounting treatment cannot be affected. Resolution of this issue is best made at a provincial level.

7 AUDIT OF SELECTED ASPECTS OF OPERATIONS

BACKGROUND

7.1 In 1999, the Department of Tourism and Culture - renamed the Department of Tourism, Culture and Heritage in December 2003 - was created by combining the Tourism Division (formerly under the Department of Economic Development, now named Office of Economic Development), with the Culture Division (formerly under the Department of Education and Culture, now named Department of Education). Responsibility for the Nova Scotia Museum, included in the transfer from the Department of Education, was incorporated into a Heritage Division.

7.2 The Department's mission, as outlined in its 2003-04 business plan, is to "*champion the development, preservation and promotion of tourism, culture and heritage to stimulate economic growth and provide for stewardship of our natural and cultural heritage for the benefit of all Nova Scotians.*"

7.3 The Department is organized into five divisions: Tourism, Culture, Heritage, Nova Scotia Archives and Records Management, and Corporate Affairs. The Department had budgeted net expenses of $40.8 million for 2003-04 (consisting of $46 million of expenses offset by recoveries of $2 million and fees of $3.2 million), with approximately 300 full-time staff and 250 seasonal employees.

RESULTS IN BRIEF

7.4 The following are our principal observations from this audit.

- The audit criteria used to assess the accountability function of the Department were met.
- The goals and objectives of the Tourism Division are integrated with those of the Department and are closely aligned with the tourism strategy and annual plans developed through the Nova Scotia Tourism Partnership Council.
- Systems to monitor, measure and report performance of the Tourism Division are adequate. The economic model used to calculate the impact of tourism on the Provincial economy should be reviewed and updated for any changes to the underlying assumptions.
- The Department entered into three major contracts following open tendering processes. Responsibilities for overseeing the contracts are clearly assigned within the Tourism Division. The Division should consider initiating periodic audit and other verification processes as provided for in the contracts.

- The licensing and inspection system and practices, mandated by the Tourist Accommodations Act, should be reviewed. Policies should be established for determining frequency of inspections and improving compliance with licensing requirements. Improvements should be made to file documentation.

- The Culture Division has established policies and procedures for selecting and distributing investment funding. We noted a weakness in monitoring receipt of final reports and that certain funding decisions were made outside the established processes.

AUDIT SCOPE

7.5 In March 2004, we completed an audit of the Department of Tourism, Culture and Heritage. The audit was conducted under the mandate of Section 8 of the Auditor General Act, in accordance with auditing standards established by the Canadian Institute of Chartered Accountants, and included testing and other procedures we considered necessary in the circumstances.

7.6 The summary objectives of this assignment were to examine the overall accountability, management and control arrangements for selected aspects of the operations of the Department, and to assess the adequacy of:

- compliance with statutory or other requirements;
- control systems, procedures and practices; and
- due regard for economy and efficiency.

7.7 The following selected aspects of the Department's operations were examined:

- accountability;
- Tourism Division; and
- Culture Division investment programs.

7.8 Criteria were developed to assist in the performance of our audit (Exhibit 7.1). These criteria were discussed with and accepted as appropriate by senior management of the Department. Our work included interviews with management and staff, examination of reports and other documents, as well as detailed testing of inspection and investment processes.

PRINCIPAL FINDINGS

Accountability

7.9 Summary - We evaluated the accountability structure of the Department, detailed in Exhibit 7.2, and concluded that the audit criteria used to assess the accountability function were met. Roles and responsibilities within the Department are clearly defined and communicated. The Department prepares an annual business plan and budget, monthly financial forecasts, and accountability reports as required. The 2003-04 business plan identifies the goals and objectives of the Department and includes measurable performance targets and indicators. The business plan is available on the Department's website and is also incorporated into the Government business plan which is presented in the House of Assembly.

7.10 We looked at the Department's 2002-03 Accountability Report and found it was prepared in accordance with government guidelines. Accomplishments toward the goals and objectives are listed and information on the activities of the Department is provided. We suggested that the sources of information for some of the data presented be more clearly identified.

Tourism Division

7.11 Background - The Department's *2002 Tourism Industry Facts* publication notes tourism was a $1.3 billion industry for the Province; generating 34,700 direct and indirect jobs, $498 million in direct and indirect wages and salaries, and $96.2 million in Provincial taxes. There are a number of stakeholders involved in the tourism industry that interact with the Division, including departments of the Provincial and Federal governments as well as government agencies and industry groups and associations (Exhibit 7.3).

7.12 In 1996, the tourism industry and government released a jointly-developed tourism strategy for the Province. The strategy called for a partnership between industry and government to improve the economic benefits to the Province from the tourism sector. A joint private/public sector tourism committee was established to develop a model for how the partnership would work. This resulted in the formation of the Nova Scotia Tourism Partnership Council in 1998.

7.13 The Council is made up of 14 representatives from the industry and two from the Department. The Council provides input and strategic direction on Departmental investments in tourism and takes a lead role in developing the tourism strategy and annual tourism plans.

7.14 The Tourism Division provides support and representation on the Nova Scotia Tourism Partnership Council, manages contracts with outside agencies (Exhibit 7.4), undertakes tourism marketing and planning, supports tourism development, and develops sales and partnerships to promote and develop tourism.

7.15 The Division is also responsible for the annual licensing and inspection of approximately 1,300 fixed roof establishments and 128 private and municipal campgrounds under the Tourist Accommodations Act and Regulations.

7.16 Summary - We evaluated the processes supporting the planning, monitoring, measuring and reporting of performance of the Tourism Division. We also reviewed the Division's policies and procedures for ensuring compliance with the Tourist Accommodations Act and Regulations. Our observations with respect to these areas are noted below.

7.17 Planning - The goals and objectives of the Tourism Division are included in the goals and objectives of the Department set out in the business plan. The Division is also guided by the tourism strategy and annual tourism plan developed through the Nova Scotia Tourism Partnership Council. We found that the goals and objectives of the tourism strategy and annual plan are closely aligned with those of the Division. The Vision for Tourism was presented in 2002, and developed through the Nova Scotia Tourism Partnership Council. It is summarized in the phrase "*100% tourism revenue growth over the next decade*", and provides overall direction to the work of the Division.

7.18 Performance management - The Tourism Division has systems to monitor, measure and report performance. Managers use monthly financial reports, bi-weekly status reports and regular meetings and discussions with staff for resource planning and management. Our additional comments are listed below.

- The Division plans and conducts a number of marketing campaigns jointly with other government and industry partners. It has developed a spreadsheet to monitor spending on the various programs and track the contributions from its partners. The impact of the marketing campaigns is regularly monitored and assessed through gathering of statistical data, surveys and other analysis.

- The Division maintains a number of databases that contain information on partners, funding amounts and other data under its various programs. Management identified the need for a system to enable its programs to be managed through a common database. This would eliminate duplicate information and provide a complete view of the Division's programs and funding, for example, by geographical area and by partner. An initiative to determine the requirements for such a system was undertaken. As a result, the Department became part of a joint project to set up a shared database, led by the Office of Economic Development, along with Service Nova Scotia and Municipal Relations and the Nova Scotia Office of Health Promotion - Sport and Recreation Division. The Department expects the system to be operational in late spring 2004 at an estimated cost (Department's share) of $20,000.

- The Division uses a spreadsheet based on an economic model developed in 1996 to calculate the impact of tourism on the Provincial economy such as revenues generated, jobs created and taxes paid. The information is used to assess the value of tourism and determine the resources that should be

allocated. We were informed that the spreadsheet needs to be updated as some of the underlying assumptions and other factors used in the model likely need to be reassessed and changed.

- The Division experienced some difficulty with collecting outstanding receivables due to uncertainty over responsibility for collection. An accounts receivable report provided to the Department listed over $600,000 in outstanding receivables, most of which related to the Tourism Division. Some of the amounts were outstanding since 1997. Invoices from the Division are processed through the Department of Finance - Corporate Services Unit (CSU) and the corresponding receivables are recorded in the corporate financial management system. There was no systematic reporting of the receivables to the Division or follow up by the Division to ensure payments were received. The CSU has been reviewing the overall process to determine how the responsibility for monitoring and collection of receivables should be allocated between the Division and the CSU. This process is expected to be in place for 2004-05.

- In 2002, the Division changed its method of direct-to-consumer literature distribution after a tendering process for distribution services based on geographic markets. The Division indicated its concerns with the cost and delivery time of some of the distribution services were addressed as a result of this change.

Recommendation 7.1

We recommend that the Department review the economic model used to calculate the impact of tourism on the Provincial economy to ensure the underlying assumptions and factors are still valid.

7.19 Contracts and agreements - We reviewed the procurement and monitoring practices for the three largest contracts administered by the Division. We found the contracts were entered into following open tendering processes as required by the *Government Procurement Policy*. Responsibilities for overseeing the contracts are clearly assigned. We also reviewed other service agreements administered by the Division. The following are our observations on the contracts and agreements.

- The Department entered into an agreement with a private sector company in early 2002 to manage the three resorts owned by the Province -The Pines, Keltic Lodge, and Liscombe Lodge. A team with representatives from the Division and the Departments of Finance, Justice, and Transportation and Public Works performs a yearly review of the budget, cash flow forecast and prior year's results as provided by the management company. An independent consultant with expertise in the hospitality industry is also involved in this review process. The Division reviews monthly financial, occupancy and capital project reports and there is regular and frequent communication between the

Division and the management company. Although the agreement specifies that the books and records are to be kept on the accrual basis of accounting using the *Uniform System of Accounts for Hotels*, it does not require annual audited financial statements be provided. A clause in the agreement gives the Provincial government the right to request that an audit be carried out. An audit would provide independent assurance on the systems and controls in place and financial information provided by the private sector operator.

- The contract with the agency of record for marketing and advertising services was in effect from January 31, 2001 to December 31, 2003. A second contract with the agency, following an open tendering process, was being finalized at the time of our audit. The terms of the existing contract were extended while negotiations on the new contract were underway. The contract sets out the services to be provided and reporting requirements. Compensation under the contract includes a set amount paid monthly and an additional component based on performance. Each year an advertising strategy and media plan are developed based on the Division's target markets. Within the plan, each campaign requires a cost estimate and Division approval before proceeding. Expenditures under the contract are reviewed and monitored regularly. The agency is not required to provide documentation to support amounts included with billings, such as third party costs, unless requested to do so. The Division does not generally request this information. A reconciliation of the actual hours spent by the agency's staff on the Division's projects is done each year. The Division carries out semi-annual and annual performance reviews of the agency. Payment of the performance-based component is dependent upon the results of the reviews. There is also frequent contact between the Division and the agency on activities under the contract. The Division can request that the contract-related records of the agency be made available for examination but such a request has not been considered necessary.

- The Provincial government has ownership interest in a toll-free, computerized tourism information and reservation system and database. The Department entered into an agreement with a private sector company to manage the system. The first agreement with this company was in effect from 1994 to 2000. A second agreement, following an open tendering process, was signed in June 2000 and ends on June 15, 2005. There is an option to renew the agreement for two additional years. Services to be provided, performance standards and reporting requirements are set out in the agreement. The Division receives monthly activity reports and performs quarterly reviews of performance. The management company carries out annual customer and operator satisfaction surveys; a benchmarking process is carried out every two years to compare the information and reservation services provided with those available in other jurisdictions in North America. The agreement allows the Provincial government access to the company's records in relation to the agreement. The last audit was carried out in 1998 under the previous contract. During 1996 and 1997, a consultant was hired to review and report on the company's performance in providing the services required. There has not been an independent assessment of the services since that time.

- Under the original terms of the tourism information and reservation system management agreement, compensation for the basic services provided was based on a guaranteed minimum number of minutes for inbound and outbound calls. In 2002, the contract was amended to reduce the base cost by $60,000 and eliminate the guaranteed minimum number of minutes. The actual number of minutes reported by the management company was less than the guaranteed minimum and was not expected to increase significantly in subsequent years.

- The Division has agreements with seven regional tourism industry associations (RTIAs) to provide services in the areas of communication, research, training and development, and marketing, advertising and promotion. Funding is provided and the RTIAs report on the activities undertaken in their areas. Funding is based on the previous year's level rather than specific services provided. Reporting on activities by the RTIAs is not clearly specified in the agreements. Some RTIAs provide comprehensive reports while others provide summary level information. The Division is in discussion with the RTIAs to establish a more structured method of funding based on the services to be provided. The Division is also developing an assessment process for the quality and delivery of those services. Finalization of the new agreement structure is awaiting the outcome of deliberations of the Administration of Tourism Task Force. Those deliberations include the role of the RTIAs.

Recommendation 7.2

We recommend that the Department consider initiating periodic audit and other verification processes as provided for in the management agreements as part of its oversight and due diligence in managing the agreements.

7.20 Compliance - The Tourist Accommodations Act and Regulations require that all roofed tourist accommodations and camping establishments obtain a license annually from the Department. The Act and Regulations set the minimum requirements for each type of establishment and provide for inspection. We reviewed a sample of files to determine if the licensing and inspection systems were operating as designed. The following are our more significant observations.

- The licensing and inspection files are a combination of paper files and an electronic database which is used to record names, addresses and other contact information for each licensed establishment. License renewal applications are sent out each year to the establishments recorded in the system and payment of the annual fee is noted on the application when received. Because the tracking system is largely manual, it is difficult to obtain information such as the number of establishments that have renewed licenses and paid fees or which establishments have been inspected. The Department recorded $181,944 in licensing fees in 2003-04 (2002-03 - $178,620).

- The Division usually inspects over half of the accommodations each year and the remaining establishments every second year. Determination of the need for an annual or biennial inspection cycle is based on an informal assessment of the quality rating of the establishment, inspection history and visitor complaints. The assessment ratings were not adequately documented in the files and we were unable to determine from file information whether an establishment should be on an annual or biennial inspection cycle.

- The quality assurance officers use inspection reports to document the areas and items inspected and to note any unsatisfactory matters that need to be corrected. We encountered a number of instances where there was inadequate documentation in the file of follow up when an unsatisfactory item was noted on the inspection report.

Recommendation 7.3

We recommend that the Tourism Division review its licensing and inspection system and practices, consider establishing a risk-based approach for determining the frequency of inspections, and establish file documentation standards and a file quality assurance review process.

7.21 The Division indicated there are a number of unlicensed establishments in operation (estimated at over 250) and the number may be growing, due in part to the availability of internet advertising. Most are small operations, such as private cottages. The Division relies on its inspectors, through their work in the field, to be aware of these operations. Further, only licensed establishments are allowed to be included in official tourism publications, such as the annual tourist accommodation guide, or linked to the tourism website. However, the Division is not consistently enforcing licensing requirements on unlicensed operators.

Recommendation 7.4

We recommend that the Tourism Division review its practices concerning unlicensed establishments and establish a process for improving compliance with the licensing requirements.

7.22 The Canada Select Accommodation Rating program, administered by a private sector organization, is a quality rating system for tourist accommodations and campgrounds. In Nova Scotia, enrolment in the program is voluntary and a quality rating is not required in order to obtain a license to operate. The Division has an agreement with the program administrator whereby Canada Select inspectors conduct dual quality and licensing inspections for those operators enrolled in the program. Approximately half of the licensed tourist accommodations and campgrounds in the Province are rated under the program.

Culture Division

7.23 Summary - A Statistics Canada study on the culture sector, commissioned by the Culture Division in 2003, reported that the direct and indirect impact of the culture sector in the Province was estimated at almost $1.2 billion for 2001, with 28,000 direct and indirect jobs depending on culture sector activities. The Division is responsible for developing and supporting the growth of the culture sector through its various investment programs including: cultural activities, grants to individuals, grants to organizations and small groups, cultural industries, and anchor organizations funding (Exhibit 7.5). The Division funded 396 investment projects during 2003-04 totaling $5.3 million (2002-03 - $4.2 million). We reviewed the Division's process for selecting, distributing and evaluating its investments.

7.24 Selection and distribution - The Division has established policies and procedures for selecting and distributing investments. These policies, for the most part, are not written but are understood by staff. The following are the key steps in the funding process.

- Investment proposals are assessed and selected by an independent selection committee (for programs formerly under the Nova Scotia Arts Council) or by Division staff. In both situations, the highest scoring applicants are considered for funding (Exhibit 7.6).

- A letter, signed by the Minister, is sent to each successful applicant advising of the approved funding amount and indicating that a Terms of Reference document will be forwarded for signature.

- The Terms of Reference document states significant changes are not to be made to a project without the Division's approval and a final report must be submitted once the project is complete. It clearly states that failure to comply with these requirements could jeopardize future applications for funding. Funds are not to be advanced until the signed Terms of Reference are returned to the Division.

- The amount of approved funding advanced varies by program. Approved funding for individuals, organizations and small groups is fully advanced upon receipt of the signed Terms of Reference. For the other programs, 80% of approved funding is initially advanced and the remaining 20% upon receipt of the final project report.

7.25 The Nova Scotia Arts and Culture Partnership Council, a joint government and industry advisory body, was recently created to gather input from the cultural sector and to provide advice and direction for the Division's programs. One of its priorities is to develop annual cultural sector development plans and review the design and delivery of the investment programs.

7.26 Process testing - We selected a sample of successful applications for 2003 and found the established policies and procedures for investment selection and funding were followed. However, we noted improvements were needed in the monitoring of receipt of final reports. The Division indicated it plans to enhance its investment tracking database to provide notification if final reports have not been received.

Recommendation 7.5

We recommend that the Culture Division continue to develop its database to include information on receipt of final reports. This would help ensure recipients are held accountable for investment funds received before any new funding is considered.

7.27 We were informed that during 2003 there were eight organizations, receiving investment funding totaling $21,000, that did not follow the regular application process. There were also three organizations that, in addition to the investment funding received through the regular application process, subsequently received additional funding totaling $12,828. While the amounts are small, we are somewhat concerned that there appears to be an alternative avenue for funding for which there is no defined process and which may not be available to all cultural groups and organizations.

7.28 Program evaluation - At the time of our audit, the Division did not have a system to review its investment programs and performance. However, the Department has begun a Department-wide program evaluation initiative to establish indicators and outcomes for key program areas and develop a framework for ongoing evaluation and monitoring of results. The Division has worked with Statistics Canada to collect data on the cultural industry in Nova Scotia. This baseline data will be used to help establish outcome measures and targets. Once this is completed, the Division plans to begin regular monitoring of the investment programs. We encourage the Division to continue developing program performance measures and targets and improve its ability to determine whether its investment activities are achieving the expected results.

7.29 Art Bank - The Division is also responsible for the Nova Scotia Art Bank. The Art Bank acquires and maintains works of art by professional Nova Scotia artists. The Art Bank adds to its collection each year by purchasing pieces as recommended by an independent peer assessment committee. The art works are often loaned out to government departments and other selected entities for display to help promote the artists. The Art Bank is considered a working collection and therefore not subject to the same environmental requirements expected in a gallery setting.

7.30 We reviewed the acquisition and administration systems for the Art Bank but did not perform any procedures to test the acquisitions process or verify the accuracy of the inventory listing.

CONCLUDING REMARKS

7.31 The accountability framework for the Department of Tourism, Culture and Heritage is adequate and the Department complies with government reporting requirements.

7.32 The Tourism Division has adequate procedures in place to ensure resources used in the administration of its programs are managed with due regard for economy and efficiency. There are some weaknesses in the administration and enforcement of the Tourist Accommodations Act and Regulations. The Culture Division has appropriate administrative and accountability procedures for its investment programs.

Audit Criteria

Exhibit 7.1

Audit criteria are reasonable and attainable standards of performance and control, against which the adequacy of systems and practices can be assessed. They relate to the audit objectives developed for an assignment and are used to design detailed audit tests and procedures.

The following criteria were used in our audit of the Department of Tourism, Culture and Heritage.

Accountability

The mission, vision, strategies and annual plans of the Department should be prepared and communicated.

There should be a clear linkage to the overall goals and objectives of the government.

Policies designed to support the achievement of the Department's objectives should be established and communicated.

Objectives and related plans should include measurable performance targets and indicators.

Roles and responsibilities should be clearly defined and consistent with the Department's objectives.

Sufficient and relevant information should be identified and communicated in a timely manner.

There should be regular reporting of financial position and operating results to senior management of the Department and the House of Assembly, as required.

Performance against established targets should be measured and reported.

Reports should provide adequate information to assess the financial and non-financial activities of the Department and should be written in clear, plain language.

The Department should comply with legislation and any other reporting requirements of the government.

Tourism Division

The goals and objectives of the Division's programs should be clearly identified, defined and communicated and should be aligned with the goals and objectives of the Department.

Factors critical to the successful achievement of the objectives should be identified and defined.

Reasonable, measurable performance targets should be established.

There should be adequate systems to monitor, measure and report performance.

These systems should provide credible quantitative and qualitative information.

Management planning and control, operating systems and work practices should demonstrate due regard for economy and efficiency.

There should be systems which ensure compliance with applicable provisions of Provincial legislation, regulations, policies and procedures.

Authorities and responsibilities for the enforcement of Provincial legislation, regulations and agreements should be clear.

Culture Division Investments

Goals and objectives of investment programs should be clearly established.

Terms and conditions for receipt of investments should be clearly defined and communicated.

Funding should only be used for the purposes intended by the program. Investment recipients should be held accountable for monies received.

There should be periodic assessments of the performance of investment programs to determine if the objectives are being met.

Summary Organization and Accountability Chart as at March 31, 2004

Exhibit 7.2

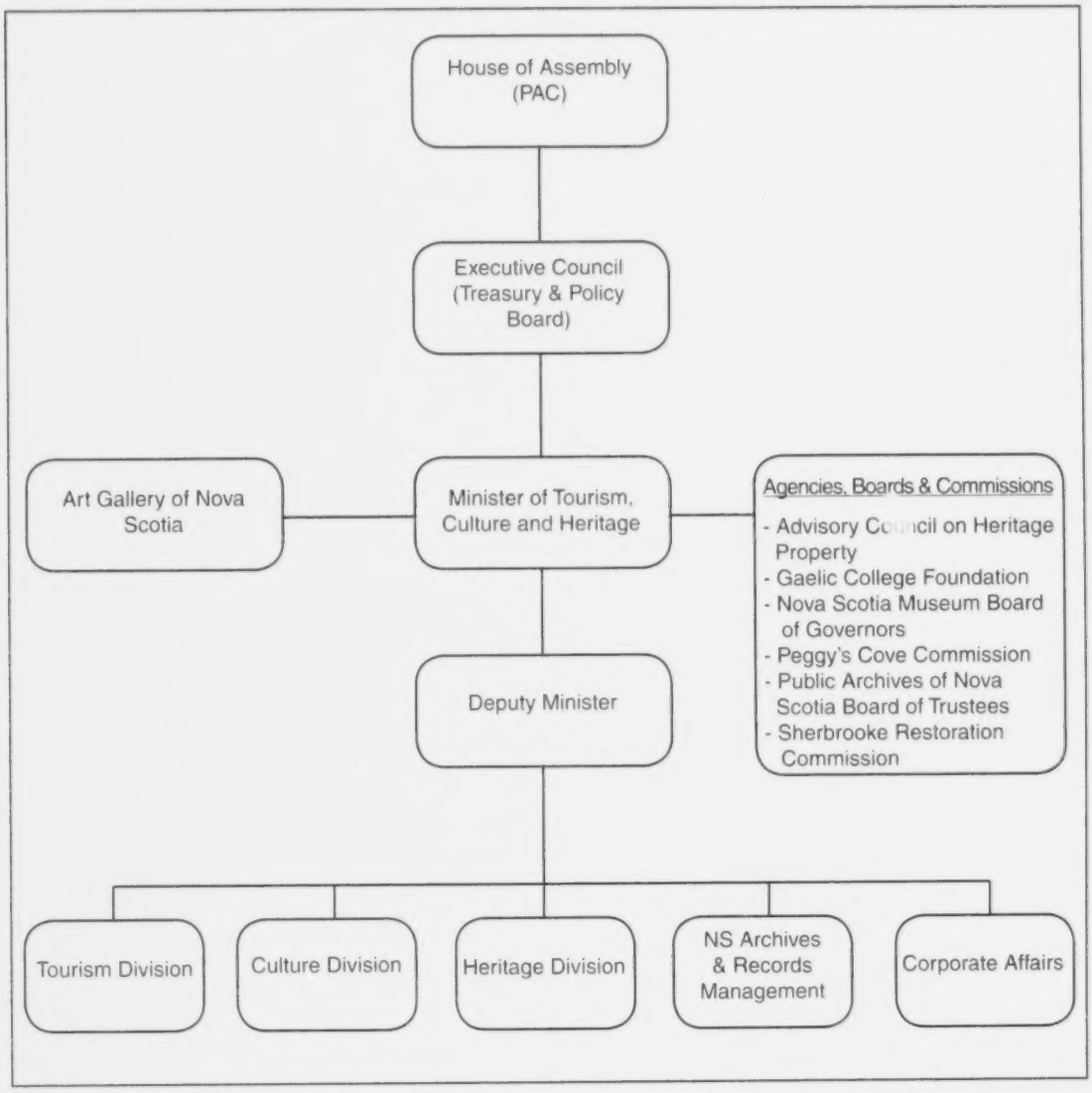

House of Assembly (PAC)
Executive Council (Treasury & Policy Board)
Art Gallery of Nova Scotia
Minister of Tourism, Culture and Heritage
Agencies, Boards & Commissions
- Advisory Council on Heritage Property
- Gaelic College Foundation
- Nova Scotia Museum Board of Governors
- Peggy's Cove Commission
- Public Archives of Nova Scotia Board of Trustees
- Sherbrooke Restoration Commission
Deputy Minister
Tourism Division
Culture Division
Heritage Division
NS Archives & Records Management
Corporate Affairs

Exhibit 7.3

Stakeholders in Provincial Tourism which Interact with the Department of Tourism, Culture and Heritage

Atlantic Canada Tourism Partnership
Canadian Tourism Commission
Federal government departments and agencies such as the Atlantic Canada Opportunities Agency
Nova Scotia Tourism Partnership Council
Regional Development Authorities
Regional Tourism Industry Associations
Tourism Industry Association of Nova Scotia
Tourism operators such as hotels and resorts, tours, attractions and transportation
Other Provincial departments such as Natural Resources, Office of Economic Development, and Transportation and Public Works

Exhibit 7.4

Tourism Division - Major Third Party Contracts and Agreements

Contract/Agreement	2003-04	2002-03
Nova Scotia Signature Resorts Management Agreement		
- management fee	$316,000	$331,000
- incentive fee	30,000	45,000
Check In Information and Reservation System Agreement		
- contract cost	2,200,000	1,800,000
- commissions	429,000	503,000
Marketing Services Agreement		
- base cost	5,400,000	5,100,000
- performance based remuneration	94,000	114,000
Atlantic Canada Tourism Partnership Agreement	$2.17 million over 3 years to March 31, 2006	
Bluenose II Operating Agreement	$650,000 per year to April 1, 2005	
Upper Clements Theme Park Lease	$310,000 per year to January 31, 2007	

Source: Department of Tourism, Culture and Heritage

Culture Division - Investment Summary

Exhibit 7.5

Program	#	2003-04 Investments	#	2002-03 Investments
Anchor Organizations	44	$2,754,841	39	$2,478,650
Art Bank	22	30,481	-	-
Cultural Activities	96	691,015	101	400,940
Facilities	10	240,365	9	257,065
Grants to Individuals	88	400,000	42	213,000
Grants to Organizations and Small Groups	72	486,000	22	128,736
Industry Growth	50	521,277	80	607,478
Youth	14	161,334	6	110,790
Total Investment	396	$5,285,313	299	$4,196,659

Source: *Department of Tourism, Culture and Heritage*

Culture Division - Summary of Investment Selection Process by Investment Type

Exhibit 7.6

Investment Type	How Are Applicants Compared Against Eligibility Criteria?	Funding	
Cultural activities, Anchor Organizations, Industries, Youth	Staff assess applicants using rating system	Highest scores receive funding	80% on signing Terms of Reference/ 20% on completion after final report
Grants to Individuals, Grants to Organizations and Small Groups	Independent assessment panel/ jury assess applicants	Highest scores receive funding	100% at start once Terms of Reference are signed
Facilities	Staff review applicants based on criteria, no rating system	Few applicants in this category, same typically receive funding each year	80% on signing Terms of Reference - 20% on completion after final report
Portia White Prize, Grand Pré Prize	Selection committee/ assessment panel review nominees	One prize recipient selected by panel	Prize – 100% on awarding

8 PUBLIC SAFETY COMMUNICATIONS PROGRAM OFFICE

BACKGROUND

8.1 The Public Safety Communications Program Office is a branch of the Department of Transportation and Public Works. The primary function of the Program Office is the administration, management and support of two Province-wide mobile radio communications networks, as well as a radio operations center in Shubenacadie, Colchester County.

8.2 The two networks are the Trunked Mobile Radio network and the Nova Scotia Integrated Mobile Radio System. The networks are used to provide field communication services to approximately 14,000 public safety and public works users. Users include Provincial departments and agencies, Emergency Health Services, the RCMP, emergency measures organizations and volunteer emergency service providers.

8.3 The Trunked Mobile Radio (TMR) network is the primary mobile radio communication system for the majority of public safety and public works users. The TMR network became operational in May 2000, and is operated by Aliant Inc., a commercial provider of telecommunication services. The Province purchases airtime from the company and has priority user access to the network. Much of the TMR network is owned or leased by Aliant, but it also includes capital equipment owned and leased by the Province. The term of the Aliant agreement expires May 31, 2010.

8.4 When the Province planned for the development of the TMR network in 1999, costs were estimated to be approximately $8.9 million per year ($89 million over the ten-year agreement period), not including implementation costs. To March 31, 2004, the Province has incurred TMR costs totaling $46.4 million. At the time of this Report, costs are estimated to total $98.4 million to May 31, 2010, exclusive of implementation costs.

8.5 The second system used to provide mobile radio communication services is the Nova Scotia Integrated Mobile Radio System (NSIMRS). The system is owned and operated by the Province and is over twenty years old. It supplied most of the Province's emergency communications requirements before the TMR network was implemented. Its primary users now are volunteer organizations such as fire departments and ground search and rescue groups which use the system for local communications. However, the system also has some commercial users which pay fees for its use.

8.6 The TMR network agreement with Aliant had provided for the dismantling of the older system, provided a mutually agreeable solution to fill the needs of the

volunteer sector could be reached. A solution was not reached and, as a result, the old system was maintained to service the needs of the volunteer sector.

8.7 The Shubenacadie Radio Operations Center provides dispatch services for the Departments of Natural Resources and Service Nova Scotia and Municipal Relations, as well as other government agencies. The Center also provides call notification services to volunteer fire departments and after-hours call answer services for the Nova Scotia Emergency Measures Organization.

8.8 Total operating costs of the Public Safety Communications Program Office for the year ended March 31, 2004 totaled $11.1 million. Recoveries totaled $3.0 million.

RESULTS IN BRIEF

8.9 The following are our principal observations from this audit.

- The Public Safety Communications Program Office has an appropriate capital asset acquisition process in place. However, the acquisition of the Trunked Mobile Radio network occurred before the formation of the Program Office. Upon examining the acquisition of this network, we noted that a central government directive required that it be acquired by way of an operating lease. This was not supported by a comprehensive analysis of the costs and benefits or risks and rewards of an operating lease versus other procurement alternatives.

- The Public Safety Communications Program Office conducted technical assessments and implemented performance monitoring procedures after the implementation of the TMR network. We recommended a more formal post-implementation evaluation process for major systems to determine the extent to which benefits have been realized and to compare financial and operational results to original plans.

- Records relating to commercial users of the Nova Scotia Integrated Mobile Radio System were inherited from another Provincial department and are incomplete. The largest user of the system was not charged for its use for approximately ten years, until the situation was corrected in 2003. There are limited formal agreements with some other commercial users and rates charged to these users are below market rates.

- The Public Safety Communications Program Office has appropriate asset management practices to control the performance and safekeeping of its equipment. However, we observed weaknesses in its asset inventory listing for the Nova Scotia Integrated Mobile Radio System.

AUDIT SCOPE

8.10 In March 2004, we completed a broad scope audit of the Public Safety Communications Program Office of the Department of Transportation and Public Works. The audit was conducted in accordance with Section 8 of the Auditor General Act and auditing standards established by the Canadian Institute of Chartered Accountants, and included such tests and procedures we considered necessary in the circumstances.

8.11 The objective of the assignment was to assess the adequacy of policies, procedures and practices in place to ensure capital assets are acquired based on assessed needs, in an economical manner, and are protected and managed with due regard for economy and efficiency.

8.12 Audit criteria were developed to assist in the planning and performance of the audit. The criteria were discussed with and accepted as appropriate by senior management of the Public Safety Communications Program Office.

PRINCIPAL FINDINGS

Capital Acquisition

8.13 The Public Safety Communications Program Office has a process in place for the acquisition of capital assets. The process is comprehensive and includes assessment of user needs, identification of alternatives, cost-benefit analysis, development of selection criteria, and a defined approval process.

8.14 We examined the acquisition of the TMR network, and found that it was acquired before the formation of the Program Office. The network was planned and acquired by the former Technology and Science Secretariat. We concluded that reasonable processes were followed in the original planning for the new system. However, the acquisition process was significantly altered by a directive from the then Priorities and Planning Secretariat (now Treasury and Policy Board). This directive required the procurement to meet guidelines of the Canadian Institute of Chartered Accountants to allow the transaction to be classified as an operating lease. The stated purpose of this directive was to ensure the costs of the system were not added to the debt of the Province.

8.15 The accounting treatment became a primary factor in the negotiations with the private-sector service and equipment providers. The decision to negotiate an operating lease was not supported by any consideration of the long-term costs and benefits or risks and rewards of an operating lease versus other procurement alternatives. The requirement to negotiate an operating lease restricted the ability of the negotiating team to pursue options that could have potentially led to better value-for-money for the Province in both the short and long term.

Recommendation 8.1

We recommend that the acquisition of capital assets be supported by comprehensive analysis of the costs and benefits and risks and rewards of identified alternatives. The most economical alternative which meets user needs should be selected. The accounting treatment of the transaction should not be a determinant in negotiating capital acquisitions.

8.16 Because of the requirement that the new network not add to the debt of the Province, there could be no up front capital contributions from the Province. The proposal by Aliant included up front capital contributions by the Province. To meet this requirement without purchasing any equipment, the Province arranged to lease the equipment from a financial services company (the lessor). The lessor purchased the equipment (consisting of towers, electronic equipment and other infrastructure) and leased it to the Province over various lease terms, with options to renew. The lease arrangement provided Aliant with operational control over the assets, while the Province remained responsible for all associated costs.

8.17 The lease agreements with the lessor are currently in dispute and have been since the receipt of the first invoice from the company. Invoices from the company were approximately 15% higher than expected. As a result, certain equipment to be acquired under the leases was bought outright by the Province and the ultimate cost of the TMR network has been uncertain for over four years. The lessor's receivable from Nova Scotia has been sold on two separate occasions. A life insurance company currently holds the receivable. The Province formed a dispute-resolution team and assigned responsibility for the matter to the Office of Economic Development, but no settlement has yet been reached. We advised that the Province attempt to settle the dispute in a timely manner in order to remove the uncertainty surrounding the ongoing costs of the TMR network.

8.18 Assessments of the Aliant proposal were performed before the network was acquired and resulted in the following conclusions.

- Capital contributions provided sufficient funding to build the TMR network and, as a result, there was no risk to Aliant.
- Costs for repair and other services not covered by the maintenance agreements are in the high end of the industry spectrum for such work. (The Program Office has initiated actions to reduce these costs.)
- The net present value of the lease payments by the Province to the lessor over the initial lease terms represents approximately 88% to 89% of the TMR network equipment costs of the lessor.

8.19 The Program Office implemented performance monitoring procedures and conducted some technical assessments after the implementation of the TMR network. For example,

- The TMR network agreement defines performance standards. Regular monitoring and reporting of system performance against these standards is conducted by the Public Safety Communications Program Office. The standards are currently being met, as a result of Aliant adding additional equipment to the network.

- A meeting of the service provider and users indicated satisfactory network performance and a high degree of user satisfaction.

8.20 However, we believe there should be a more formal post-implementation evaluation for major systems or assets to determine the extent to which benefits have been realized and to compare results to original plans. We reviewed the cost of the TMR network and noted that, by May 31, 2010, the Province will have spent an estimated $98.4 million on TMR communications. This is $9.4 million (10.6%) over the original budget. However, there has been no formal comparison of actual system costs incurred to costs estimated by the initial plans. Based on our enquiries, cost overruns were related to unexpected mobile radio equipment purchases as a result of the dispute with the lessor, and network upgrades necessary to mitigate service interruption risks. In addition, costs related to trying to settle the contract dispute are being incurred by the Office of Economic Development.

8.21 Also, there have been additions to the system subsequent to its implementation, but no reporting of whether or not the initial plan required the extra equipment. We believe a comprehensive post-implementation evaluation is especially valuable when the long-term operation of an important system will need to be negotiated with service and equipment providers on a regular basis, as is the case with the TMR network.

Recommendation 8.2

We recommend that the Public Safety Communications Program Office's processes include a requirement for a formal post-implementation evaluation for major systems.

Long-term Plans

8.22 The Aliant agreement expires on May 31, 2010. The terms of the equipment leases range from five to ten years. There are provisions in the TMR network agreement which require Aliant to provide TMR services to Nova Scotia for a period of up to one year subsequent to the expiry date if the agreement is not renewed. There are also provisions in the equipment leases for continuance of the lease arrangement. If the Province does not renew a lease, Aliant has the first option to purchase the capital assets of the TMR network. Nova Scotia has a second right to purchase the leased assets. The assets can be purchased at fair market value, as estimated when the lease agreement was first negotiated (10% of the original equipment costs).

8.23 In accordance with the TMR network agreement, the Province must decide by November 30, 2007 how it will maintain its mobile radio communications service capacity beyond May 31, 2010. The Province must decide whether or not it will renew the TMR network agreement and equipment leases, or pursue another option.

8.24 The Public Safety Communications Program Office has started a planning process to address the long-term mobile communication needs of the Province. The plan has two components. Phase I is a process to address the needs of the volunteer sector and Phase II will address the needs of the current TMR users. The proposed solution to address the needs of the volunteer sector will also mitigate some of the risks and threats noted in a TMR Threat Risk Assessment performed for the Program Office. The proposed volunteer-sector solution is currently awaiting approval by Executive Council. Management has indicated that Phase II will begin upon completion of Phase I and will be completed prior to May 2006. The Program Office will then be in a position to decide on the future of the TMR network agreement and the equipment leases.

The Nova Scotia Integrated Mobile Radio System

8.25 The second network used to provide mobile radio communications is the Nova Scotia Integrated Mobile Radio System. This system is used to provide mobile radio communications for volunteer organizations such as volunteer fire departments and ground search and rescue groups. The system is also used by commercial users which pay fees to the Province for use of the system. Along with responsibility for operating the system, fee collection was transferred from the Department of Natural Resources to the Department of Transportation and Public Works in November 2002.

8.26 An internal review by Transportation and Public Works noted weaknesses in the collection of fee revenues. It noted that an oversight resulted in the system's largest commercial user, Nova Scotia Power Inc., not being charged fees after it was privatized in 1992. An agreement effective January 1, 2003 was negotiated with the company in which annual fees of $75,000 will be paid to the Province and the company will forgive annual revenues estimated at $25,000 that would otherwise be payable by the Province for electricity used by the system. The agreement was not retroactively applied so the Province did not receive such revenues or associated cost savings for a period of approximately ten years.

8.27 The internal review also noted that contracts with other commercial users were out-of-date, incomplete or non-existent. An independent evaluation of the system noted that rates charged by the Province were below market rates. The Department recognizes the need to improve control over revenue collection and has developed a policy to address these issues. The agreement with Nova Scotia Power Inc. now reflects market rates, and the Department plans to implement this policy for other commercial users in 2004-05.

Recommendation 8.3

We recommend that Transportation and Public Works implement a process to ensure there are formal agreements with all commercial users which are reviewed on a regular basis. The process should ensure rates charged are appropriate and all revenues due to the Province are collected on a timely basis.

Capital Asset Management System

8.28 The Province has a significant investment in mobile radio communications. This investment provides both public safety and public works service providers with mobile radio communication capabilities which are critical to the performance of their designated functions. As such, the investment in both leased and owned assets needs to be carefully managed on an ongoing basis.

8.29 Our audit noted that the Public Safety Communications Program Office has a capital asset management system. The Program Office has maintenance schedules and processes to safeguard assets. There are standards for the services provided by Aliant, and the Program Office receives regular reports on the performance of the TMR network.

8.30 However, we observed that the Program Office's capital asset listing for the Nova Scotia Integrated Mobile Radio System is incomplete. Complete listings are important for the ongoing management of capital assets.

Recommendation 8.4

We recommend that the capital asset management system of the Public Safety Communications Program Office include complete lists of capital assets under its control.

CONCLUDING REMARKS

8.31 The Public Safety Communications Program Office has adequate systems for acquiring, maintaining and protecting its capital assets. However, due to a lack of documented analysis to support the directive to pursue an operating lease, the absence of a settlement of the contract dispute and the lack of a formal post-implementation evaluation, we are unable to conclude whether or not the TMR network represents value-for-money in both the short and long term for the Province.

9 ROAD SAFETY

TRANSPORTATION & PUBLIC WORKS & SERVICE NS & MUNICIPAL RELATIONS

BACKGROUND

9.1 Road safety is a complex issue that involves many factors, including human (driver, passenger, pedestrian), vehicle, road and weather variables. The responsibility for these elements of safety is shared between the federal, Provincial and municipal governments, law enforcement agencies, private organizations, and each driver and pedestrian in Nova Scotia. Road safety issues are broader than the mandate of any single organization.

9.2 In November 2002, there were approximately 641,000 Nova Scotia residents licensed to drive a vehicle, representing approximately 70% of the population of the Province. There are approximately 23,000 kilometers of road under Provincial government responsibility in Nova Scotia. The Province pays the RCMP to patrol the approximately 1,800 kilometers of 100 series Provincial highway. All other roads in the Province are patrolled by municipal police, including RCMP services paid for by municipalities either through the Provincial government or on a direct basis.

9.3 In 2002, there were 13,824 reported collisions, 5,187 (38%) on Provincial roads and 8,637 (62%) on municipal roads. Often, collisions cannot be attributed to only one factor. However, driver inattention is often the attributed factor. In 1998, the Canadian Council of Motor Transport Administrators publication *State of Road Safety in Canada* noted Nova Scotia had the third lowest fatality rate of 12 Canadian jurisdictions. In 2001, Transport Canada traffic statistics indicated Nova Scotia had the third lowest fatality and injury rates of 13 Canadian jurisdictions.

9.4 In the fall of 2000, the Ministers of Transportation of Canadian provincial, territorial and federal governments initiated a collaborative effort named *Road Safety Vision 2010* which resulted in road safety targets. Background material indicated that in 2001 road fatalities accounted for more than 90% of all Canadian transportation related deaths. Traffic fatalities peaked in the early 1970's. Since that time, Canada's population has grown by 40%, and the number of vehicles has increased by 80%. Despite the increased mobility, the number of traffic deaths nation-wide has declined by more than half. In Nova Scotia, government reported that fatalities decreased from 277 to 70 between 1973 and 2003. The improvement is the result of a combination of factors, including increased use of seat belts and fewer instances of driving after drinking, improved vehicle safety standards, better road design, improved emergency medical services and tougher laws and enforcement.

9.5 In Canada, responsibility for road safety is shared among the federal, provincial, territorial and municipal levels of government. The federal government is responsible for the development and implementation of new motor vehicle

safety standards and the enhancement of existing standards, as well as for inter-provincial commercial vehicle safety. Provinces and territories are responsible for road operation, construction and maintenance; commercial vehicle operations; driver and vehicle licensing; policing of 100 series highways; and the development and implementation of local safety initiatives. Municipalities are responsible for local road operation, construction, maintenance and policing. In addition, non-governmental agencies play important roles in the development and delivery of safety programs.

9.6 In Nova Scotia, the Department of Transportation and Public Works (TPW) is responsible for highway operation, construction and maintenance; enforcement of commercial vehicle operations; and development of road safety programs. Service Nova Scotia and Municipal Relations (SNSMR) is responsible for commercial carrier registration, as well as driver and vehicle licensing. The Department of Justice administers the Provincial Police Service Agreement with the RCMP, which includes series 100 highway patrol. Municipalities pay for their own police road patrol, or pay for RCMP resources through the Provincial Police Service Agreement or by direct contract with the RCMP. In 2002-03, TPW spent $119.7 million on annual highway programs and $78.7 million on capital highway projects. SNSMR spent $4.3 million on motor vehicle related programs, and RCMP highway patrol costs the Province approximately $8.0 million each year, paid from the Department of Justice budget.

9.7 In September 1997, the Province created the Road Safety Advisory Committee (RSAC) to assist in the development, implementation and evaluation of government safety strategies relating to drivers, vehicles and roadways. The committee includes representatives from Service Nova Scotia and Municipal Relations, Department of Transportation and Public Works, Department of Justice, Nova Scotia Safety Council, RCMP, Police Chiefs Association of Nova Scotia, Insurance Bureau of Canada, Department of Health, and Mount St. Vincent University. Sub-committees of RSAC were formed to facilitate the achievement of targets identified in *Road Safety Vision 2010*, as well as other initiatives identified by the Province.

RESULTS IN BRIEF

9.8 The following are our principal observations from this audit.

- The quality of public reporting of road safety information should be improved to include regular comprehensive, comparative reports on the status of road safety initiatives and progress toward road safety targets.
- Recent information indicates that in 2001 Nova Scotia had the third lowest traffic fatality and injury rates of 13 Canadian jurisdictions.
- The Department of Justice spends approximately $8.0 million on RCMP highway patrol, but does not have any outcome measures related to highway safety.

- The Department of Justice's 2003-04 objectives, priorities and goals for the RCMP under the Provincial Police Service Agreement contained only one item relating to highway patrol, and it was for a matter that had previously been substantially completed by the RCMP. The RCMP has adopted its own goals relating to road safety, but the Department of Justice does not require any reporting by the RCMP against the goals.

- Several road safety initiatives recommended by Transport Canada and implemented in other jurisdictions were approved by the Road Safety Advisory Committee and the Deputy Ministers to which it is accountable. However, required legislative changes have not yet been pursued and the status of the initiatives has not been reported to the Committee.

AUDIT SCOPE

9.9 In March 2004 we completed a broad scope audit of Provincial road safety programs and systems in accordance with Section 8 of the Auditor General Act and auditing standards established by the Canadian Institute of Chartered Accountants. Our audit included all tests and other procedures we considered necessary in the circumstances.

9.10 The objectives of this assignment were to assess:

- the systems for ensuring compliance with Provincial legislation and regulations relating to road safety;

- the quality of reporting for road safety information and performance; and

- whether road safety program activities and outputs/outcomes are adequately planned, measured, monitored and compared to management expectations (i.e., goals and objectives).

9.11 Our work included interviews with management and staff, as well as examination of committee minutes, manuals, reports and other documents. We did not meet with the RCMP to discuss issues related to road safety.

9.12 The audit did not address commercial carriers, public passenger vehicles or off-road vehicles. The data presented in this Report include statistics from both rural and urban roads. We did not attempt to limit incident statistics to only Provincial highways. As well, we did not verify all statistical data provided by the Department of Transportation and Public Works and Service Nova Scotia and Municipal Relations. However, we detected situations which indicated road fatalities and collisions may be under-reported. We describe this situation more fully in the section of this chapter titled Data Integrity.

9.13 Audit criteria were developed to assist in planning and performing the audit. The criteria were discussed with, and accepted as appropriate by, management of

the Department of Transportation and Public Works and Service Nova Scotia and Municipal Relations.

PRINCIPAL FINDINGS

Compliance

9.14 There is no explicit legislative mandate for road safety. Section 4 of the Public Highways Act designates management and control responsibilities for public highways to the Minister of Transportation and Public Works. The Public Service Act, Sections 68 and 73, designates management and control responsibilities to both the Department of Transportation and Public Works (TPW) and Service Nova Scotia and Municipal Relations (SNSMR). Staff of the Departments are made aware of changes to the Act and Regulations through various committees, distribution of the Act and Regulations, and designation of staff to oversee specific provisions. Policies are developed in consultation with affected stakeholders.

9.15 There are also a number of other Acts and Regulations that relate to highway safety. We reviewed several, including the Motor Vehicle Act, Public Highways Act, Motor Carrier Act, Transportation of Dangerous Goods Act, Railway Act, and the Occupational Health and Safety Act. We tested selected legislative requirements for compliance and did not detect any situations where legislative requirements were not being fulfilled.

9.16 In April 1996, all functions and responsibilities of the Registry of Motor Vehicles were transferred from TPW to the former Department of Business and Consumer Services (now SNSMR). The transfer resulted in a sharing of responsibility for road safety between the two departments. In 1997, a Memorandum of Understanding (MOU) was signed between Business and Consumer Services and TPW. The objective of the MOU was to integrate motor vehicle related record keeping, program development, management and delivery. The MOU specifies the roles and responsibilities assigned to each of the two Departments to achieve the objective.

9.17 The MOU included a requirement for the formation of a committee to clearly define the roles, functions and responsibilities for the various sections of the Motor Vehicle Act and related Regulations. We found that no committee was formed. Roles, functions and responsibilities were not documented and delegated to specific departments. Management indicated to us that this had been accomplished informally and that proposed legislative amendments to the Motor Vehicle Act that involve a shared interest or that need broad multi-disciplinary support are presented to the Road Safety Advisory Committee for resolution. Also, the responsibilities of stakeholders are specified through business group mandates or position descriptions. During 2001 a committee was formed with members from TPW and SNSMR to examine the best delivery location of established and future responsibilities within government. We advised that the Departments amend formal agreements if specified actions are no longer necessary.

9.18 Draft legislation was developed for several Road Safety Advisory Committee initiatives which would require amendments to the Motor Vehicle Act. The legislation was intended to improve road safety and clarify various sections of the Act. The draft legislation included requirements for an ignition interlock device for vehicles of drivers found guilty of impaired driving, drivers to pay sole attention to the operation of a motor vehicle, and private vehicles to display a warning sign when the operator is learning to drive. None of these amendments have yet been presented by government to the House of Assembly.

Accountability

9.19 The background section of this chapter describes the many levels and agencies of government involved in road safety matters, and the various responsibilities assigned to each. However, our review of legislation indicates there are no specific reporting requirements to either ministers, government or the House of Assembly regarding road safety.

9.20 We found that the Road Safety Advisory Committee reports to the Provincial Deputy Ministers of Justice, SNSMR and TPW through presentation of reports and recommendations. SNSMR reports data publicly on drivers and vehicles on a fiscal year basis, while TPW reports collision data publicly on a calendar year basis. Each Department has its own methods to report such information and there is no comprehensive, consolidated and comparative reporting to the public or House of Assembly.

9.21 In the fall of 2000, the Canadian Ministers of Transportation initiated a collaborative effort titled *Road Safety Vision 2010* which resulted in nine road safety sub-targets (see Exhibit 9.1, page 112). Nova Scotia accepted the sub-targets as goals that would be pursued locally. We found that TPW reports publicly on one sub-target and SNSMR reports publicly on four sub-targets, but there is no document which describes Nova Scotia's progress on all of the sub-targets of *Road Safety Vision 2010*. We noted an internal document was prepared in 2003 which summarized the Province's progress toward eight of the sub-targets (one target had not been defined yet). The 2010 target to decrease the number of young drivers involved in collisions had almost been met. The 2010 target to reduce collisions involving commercial vehicles had been exceeded. Targets relating to collisions involving alcohol and speed, and intersection related crashes had not been met yet (Exhibit 9.2, page 113). However, this information was not released by the Province.

9.22 Transport Canada compiles road safety information and publishes *Canadian Motor Vehicle Traffic Collision Statistics*, which includes data comparing the 13 Canadian jurisdictions. Transport Canada receives information directly from provinces and also from Statistics Canada which collects information from each jurisdiction. Such comparative information is not reported by the Nova Scotia government.

Recommendation 9.1

We recommend that regular comprehensive, comparative reports on the status of road safety initiatives and progress in achieving road safety targets be prepared and reported to the public.

9.23 The following paragraphs discuss accountability issues pertaining to specific Provincial departments.

9.24 Department of Transportation and Public Works – TPW publishes annual motor vehicle collision statistics, business plans, outcome measures, and accountability reports on its website. The 2003-04 outcome measures report notes a target of "*Improve highway safety.*" The report defines the measure of change in highway safety as "*Casualty (fatality and injury) rates per 10,000 motor vehicles registered.*" However, as of the fall of 2003, the most recent accountability report on TPW's website was for 2000-01.

Recommendation 9.2

We recommend that TPW publish its accountability reports on a more timely basis.

9.25 We reviewed government publications and news releases related to road safety for the past several years. We noted TPW press releases in 1997, 1998, 1999 and 2002 sometimes reported the overall trend in highway fatalities, or only just the year-to-year change in fatalities. The annual number of collisions and trends in collisions has not been reported.

9.26 On January 15, 2003 TPW issued a press release which compared the number of fatalities in five years of operation of the Cobequid four-lane, divided toll road with the number of fatalities in the previous 10 years on the two-lane trunk road. Such comparisons should be made for equivalent periods of time. The article did not provide comparative numbers of collisions and we noted that the number of collisions increased after the opening of the divided toll road.

Recommendation 9.3

We recommend that public information on the status of road safety be comprehensive, comparable and provide credible information which is fairly presented.

9.27 Service Nova Scotia and Municipal Relations – The SNSMR website includes business plans and accountability reports. The 2003-04 business plan includes an outcome measures section. The Department has a target to "*Improve the program standards (in the functions of policy development, program administration and public awareness) in the program area of driver and vehicle safety.*" There were four measures in the area of

driver and vehicle safety which were described as the change of "*deaths and injuries due to operation of a motor vehicle, deaths and injuries due to incidents of drinking and driving, deaths and injuries due to incidents of not wearing a seat belt, deaths and injuries due to incidents involving commercial carriers.*" In February 2004, after our audit fieldwork concluded, government reassigned responsibility for commercial vehicle enforcement and development of road safety programs from SNSMR to TPW.

9.28 Department of Justice - The Justice website includes business plans and accountability reports. The strategic goals of Justice include improving public safety and security, but neither the 2003-04 business plan nor the 2002-03 accountability report include any outcomes or measures related to road safety. The Department administers the 1992 Provincial Police Service Agreement with the RCMP, which expires in 2012. The duties of the RCMP under the agreement include responsibility for traffic services and patrol of Provincial 100 series highways. The Department of Justice estimated that highway patrol costs the Province approximately $8 million each year, which is about 10% of the Department's net budget. The RCMP also patrol other Provincial and municipal roads in the Province and the cost is paid by municipalities.

Recommendation 9.4

We recommend that the Department of Justice include outcome measures related to highway safety in its business planning process.

9.29 The Provincial Police Service Agreement with the RCMP requires the Minister of Justice to set the objectives, priorities and goals of the Provincial Police Service. No objectives, priorities and goals were set for the first ten years of the Agreement, until the summer of 2002. The 2002 objectives and goals made no reference to the traffic services program or promoting highway safety.

9.30 In July 2003, the Department sent a letter to the RCMP concerning the objectives and goals for 2003-04. The goals were not communicated to the RCMP until three months (25%) of the fiscal year had passed. The goals included one on road safety initiatives for the traffic services program, which "encouraged" the completion of the restructuring of RCMP traffic services under a single Officer in Charge. However, the RCMP 2002 Annual Report indicates the reorganization was completed in 2002, before the goal was provided by the Department. The RCMP has also published a strategic plan for traffic services titled *Road Safety Vision 2010*. The plan includes eight of the nine sub-targets which were developed by the Ministers of Transportation and published in the Transport Canada *Road Safety Vision 2010* booklet.

Recommendation 9.5

We recommend that objectives, priorities and/or goals related to the traffic services component of the Provincial Police Service Agreement be communicated to the RCMP before the fiscal year begins. The targets should relate to expected future progress and achievement.

Performance Management

9.31 Background - Transport Canada compiles road safety information and publishes *Canadian Motor Vehicle Traffic Collision Statistics* which include comparisons of the thirteen Canadian jurisdictions. Transport Canada receives information directly from the provinces, as well as from Statistics Canada which collects information from each jurisdiction. Transport Canada published *Road Safety Vision 2010* and *Canada's Road Safety Targets To 2010*. The publications overview the status of road safety in a number of countries and set national quantitative targets for Canada. There is one overall target and nine sub-targets which are intended to provide goals against which road safety program efforts can be measured (Exhibit 9.1, page 112). The publications also include suggested strategies and methods to improve safety on roads and highways.

9.32 In Nova Scotia in 2002, more than 24,000 vehicles were involved in collisions, over 33,000 people were involved, about 6,000 people were injured and there were 88 fatalities. Information is collected on collision report forms which are completed by police when they are called to respond to motor vehicle accidents. Individuals are required to complete collision report forms at a police station, within 24 hours, if police do not attend the collision scene and damage to personal property exceeds $1,000. Information compiled for us by TPW indicates that in 2002, of 13,497 collision report forms tabulated, 8,668 forms (64%) were completed by police and 4,829 forms (36%) were completed by others.

9.33 SNSMR receives the collision reports and enters the data in a computer database. Once a month, data is provided from the database to TPW which is responsible for producing statistical data on collisions. Data integrity is checked by computer edit routines, and staff at SNSMR and TPW make efforts to ensure information is complete and correct. TPW staff ensure all required information is received when a death is involved. SNSMR reports data on drivers and vehicles on a fiscal year basis, while TPW reports collision data on a calendar year basis. Statistical data is shared with Transport Canada, the Canadian Council of Motor Transport Administrators and the Traffic Injury Research Foundation.

9.34 The Traffic Injury Research Foundation (TIRF) reported that in 2002, 38% of fatally injured drivers in Canada had been drinking alcohol. TIRF reported that, in the same year, 45% of fatally injured drivers in Nova Scotia had been drinking alcohol. Provincial data indicate that road users fatally or seriously injured in crashes involving a drinking driver have increased from 80 in 2000 to 89 in 2002.

9.35 In 2002, 65 vehicle occupants were killed and 26 (40%) of these were not wearing seatbelts. Minutes from a 2001 meeting of the RSAC Deputy Minister oversight committee noted that "*seat belt compliance rates, especially in the rural areas, is running approximately 20% below the urban rate of 88%.*" As part of Transport Canada's *Road Safety Vision 2010*, a seat belt compliance target rate of 95% had been identified.

9.36 The following paragraphs discuss road safety performance management issues relating to specific Provincial departments and the Road Safety Advisory Committee.

9.37 Service Nova Scotia and Municipal Relations - SNSMR's 2003-04 business plan includes road safety related outcomes and measures. The Department has selected four sub-targets of *Road Safety Vision 2010* as critical aspects of performance in the road safety area. The Department has base-year data, quantitative targets for 2010, and has reported progress from the base-year.

9.38 On April 4, 2003 SNSMR signed a one-year Letter of Agreement with the RCMP concerning commercial vehicle enforcement. The agreement required both parties to develop statistical reports for monthly submission to a Working Management Group formed to oversee the agreement. The agreement also anticipated an evaluation of the enforcement initiative through a mutually agreed upon joint quality assurance process. We understand neither party to the agreement have developed or implemented the statistical reports or the quality assurance process. In February 2004, government reassigned responsibility for commercial vehicle enforcement operations from SNSMR to TPW.

Recommendation 9.6

We recommend that the Province ensure all significant requirements of the Letter of Agreement with the RCMP on commercial vehicle enforcement are met.

9.39 Department of Justice - As noted in the Accountability section of this Report, the Department of Justice does not have any performance measures related to road safety. Justice has also not set any specific Departmental goals related to road safety. The RCMP have adopted eight of the nine road safety sub-targets set by the Ministers of Transportation in the fall of 2000, but the Department has no requirement for performance reporting by the RCMP against such goals.

9.40 In addition, the 1992 Provincial Police Service Agreement requires the RCMP to give the provincial Justice Minister quarterly statements of the composition of the Provincial Police Service. Justice staff indicated to us that the RCMP submit monthly financial reports, but such quarterly statements have not been provided. The Department expects the quarterly statements will become available April 1, 2004.

Recommendation 9.7

We recommend that the Department of Justice request the RCMP to report progress relating to road safety as it pertains to services the RCMP provide under the Provincial Police Service Agreement. The Department should also ensure that all reporting requirements of the Provincial Police Service Agreement are met.

9.41 Department of Transportation and Public Works - TPW receives collision data from SNSMR on a monthly basis and compiles calendar year statistical tables which are published on its website. Most of the data are for a single calendar year, though the Department began including multi-year charts after 2002. Unless required, TPW does not compare road safety results before and after improvements to highways.

9.42 In the past, TPW prepared collision rate books which documented the collision rate for each section of numbered highways for the past five years. The collision rate books were intended to help identify unsafe road conditions by providing an analysis of road sections that have double the expected collision rate for that class of road. If the cause of collisions was attributed to a design or structural problem, TPW could then use the information to prioritize road improvements.

9.43 The last rate book was prepared in September 2001. We were informed that the accuracy of the information produced for the rate books is questionable and TPW has not used the information to review road performance for several years. TPW officials informed us that collision rates are only one factor which influence a decision to improve roadways. Other factors include traffic volumes, collision severity, road capacity and policy issues. We were also told that, subsequent to our audit fieldwork, a new rate book was produced which is believed to be accurate.

Recommendation 9.8

We recommend that TPW resolve the problems with the accuracy and timeliness of the collision rate books and use the information to determine road sections with high collision rates.

9.44 On May 3, 2001 TPW published *Nova Scotia's Primary and Secondary Highway Systems: 10-Year Needs* and posted the document on its website. The study identified action plans to improve primary and secondary highways in the Province. The report was to be used as a guide for future decision making about highway infrastructure, in terms of both funding and overall strategy. During the audit we found that there was no comprehensive follow-up related to the report, such as prioritized lists of system expansion projects, pavement preservation projects, new paving of gravel roads, and bridge rehabilitation and repair projects. We advised the Department to follow up reports and studies which have a bearing on road safety.

9.45 Road Safety Advisory Committee - RSAC's objectives are to "*assist in the establishment of Government road safety priorities, review programs offered by the Government and suggest changes/improvements, examine new initiatives and determine merit, and partner delivery of programs where possible.*" RSAC is co-chaired by staff of SNSMR and TPW. The Committee formed four sub-committees to research, review and make recommendations for specific initiatives affecting road safety.

9.46 RSAC and its sub-committees are facilitated by a full-time coordinator who is now located in TPW. The coordinator position was vacant much of the time during our audit, as one coordinator left in December 2002 and his replacement left in May 2003. We found that minutes were not available for all meetings of RSAC and its sub-committees. Minutes were also not available after December 18, 2001 for meetings of the committee of Deputy Ministers which oversees RSAC.

Recommendation 9.9

We recommend that minutes be prepared, approved and retained for all meetings of RSAC, its sub-committees and its Deputy Minister oversight committee.

9.47 RSAC recommendations are summarized in briefing reports to the Deputy Ministers and, upon approval, are referred to line departments for action. A number of initiatives recommended by the Committee are also recommended in Transport Canada's *Road Safety Vision 2010* and in place in other jurisdictions, but have not yet been implemented in Nova Scotia. The Committee has received no information on why legislative or regulatory amendments have not yet occurred. For example:

- In March 2001 RSAC recommended requiring ignition interlock devices for vehicles of drivers convicted of impaired driving, which was supported by the Deputy Ministers.
- In October 2001 RSAC minutes indicated an initiative regarding the usage of booster seats for children had been agreed to by the Minister of SNSMR.
- In March 2002 RSAC minutes indicated an initiative involving the elimination of certain seat belt exemptions was approved by the Deputy Ministers.

Recommendation 9.10

We recommend that responsible departments report back to the Road Safety Advisory Committee on the status of initiatives which it has recommended.

9.48 RSAC terms of reference include assisting in establishing the annual business plan for government with respect to its road safety programs. We noted that RSAC was

discussing the Committee's 2002-03 business plan in September 2002, six months after the fiscal year had begun. We also noted that RSAC was discussing its 2003-04 business plan in April 2003, again after the fiscal year had begun. There were no RSAC meetings between November 2002 and April 2003, and we understand the lack of a coordinator was a contributing factor.

Recommendation 9.11

We recommend that Road Safety Advisory Committee business plans be formulated and communicated to affected organizations and departments before the beginning of the fiscal year to which they pertain.

Data Integrity

9.49 In this Report we quote collision and death statistics published by TPW. We found that both SNSMR and TPW make certain efforts to ensure the integrity of the data. However, we found problems in the compiling and reporting of some information.

9.50 As part of this assignment we attempted to compare the number of road deaths reported by TPW with the road fatalities reported by the Vital Statistics Division of Service Nova Scotia and Municipal Relations. Vital Statistics is responsible for registration of events such as birth, death, marriage and stillbirth which occur in the Province. We compared the number of deaths for five calendar years and found that the numbers were not equal in any of the years. Discussion with staff of Vital Statistics indicated there are several reasons the numbers will not be equal, including the coding rules used by Vital Statistics and the reporting of cause-of-death at hospitals. Deaths due to automobile accidents will sometimes be attributed to an injury resulting from the accident, or to a disease that the patient had (e.g., AIDS). Due to the difference in these figures, we could not conclude on whether all deaths resulting from road collisions are attributed to that cause in reported statistics.

9.51 We also compared the total motor vehicles registered as reported by SNSMR and Statistics Canada for the years 1999 to 2002, and we noted differences. We recalculated casualty rates for 2002 and noticed that Statistics Canada was reporting 40,935 fewer vehicles than Nova Scotia. We understand that Statistics Canada obtains the registered vehicle data from SNSMR. We did not interview Statistics Canada staff, therefore we were unable to determine why differences occur.

9.52 Police will visit automobile accidents for which a 911 call was placed, or which they encounter while on patrol. When police are not present at an accident, self-reporting of collisions is required. In 2002 police only visited 64% of reported collisions. However, the Insurance Bureau of Canada has fewer collisions reported for 2002 than were reported to the Province. Due to the current situation with high vehicle insurance costs, we believe that the number of collisions may be under-reported, not only to insurance companies but to the government as well.

9.53 When collision information is reported and tabulated in Provincial systems, there is a high "unknown" factor for certain information reported. 2002 collision information indicates over 70% of collisions had an "Other" driver-condition noted, over 90% of collisions had an "Other" driver-action noted, over 85% of collisions were not attributed to any unusual environmental conditions, and over 50% of collisions do not have any contributing factor attributed to them. Together, they do not provide a clear view of what is causing collisions in Nova Scotia.

CONCLUDING REMARKS

9.54 We believe the quality of public reporting of road safety information should be improved to include regular comprehensive, comparative reports on the status of road safety initiatives and progress toward road safety targets.

9.55 There are methods to ensure the government complies with Provincial legislation and regulations pertaining to road safety.

9.56 The government manages road safety issues through a multi-stakeholder committee, as well as various safety-related programs. However, we could not form a conclusion on the adequacy of the management systems employed. We could not review minutes for all meetings of the Road Safety Advisory Committee and for the committee of Deputy Ministers which oversee it. We encountered problems with data used by the government to manage road safety programs. There is no reporting to the Province on goals the RCMP have adopted for road safety.

Exhibit 9.1 **Road Safety Vision 2010**

The following targets were approved in October 2000 by the Council of Ministers of Transportation and Highway Safety to provide broad-based benchmark data of key road safety indicators against which intervention efforts can be measured.

Overall target:

- 30% reduction in the average number of fatalities and serious injuries during 2008-2010 compared to 1996-2001 figures.

Sub-targets:

- a minimum 95% seat belt wearing rate and proper use of child restraints by all motor vehicle occupants;
- a 40% decrease in the number of unbelted fatally or seriously injured occupants;
- a 40% decrease in the percent of road users fatally or seriously injured in crashes involving a drinking driver;
- a 20% reduction in the number of road users killed or seriously injured in speed or intersection related crashes;
- 20% decrease in the percent of drivers who commit three high risk driving infractions (two if they are alcohol related) within a two year time frame;
- 20% decrease in the number of young drivers/riders (aged 16 to 19 years) killed or seriously injured in crashes;
- 20% decrease in the number of road users killed or seriously injured in crashes involving commercial carriers;
- a 30% decrease in the number of pedestrians, motorcyclists and cyclists killed or seriously injured; and
- 40% decrease in the number of road users fatally or seriously injured on rural roadways.

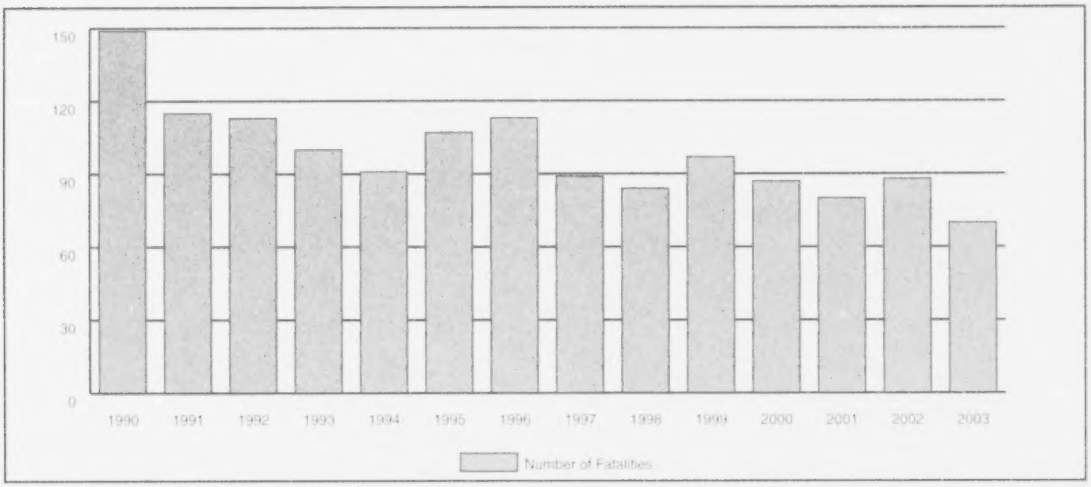
Results and Targets in Nova Scotia (unaudited)

Exhibit 9.2

MEASURE	1996-2001 Baseline	2002 Results	2010 Target
Overall target – fatalities and serious injuries	503	467	352
Subtargets:			
Minimum seat belt wearing rates	87.5%	88%	95%
Reduction in unseatbelted incidents	93	73	56
Reduction in impaired driving	86	88	51
Reduction in speed related crashes	47	46	37
Reduction in intersection related crashes	91	92	73
Reduction in young drivers in crashes	28	23	22
Reduction in commercial vehicle incidents	35	22	28
Reduction in number of vulnerable road users	95	93	67
Reduction in rural roadways incidents	299	294	180

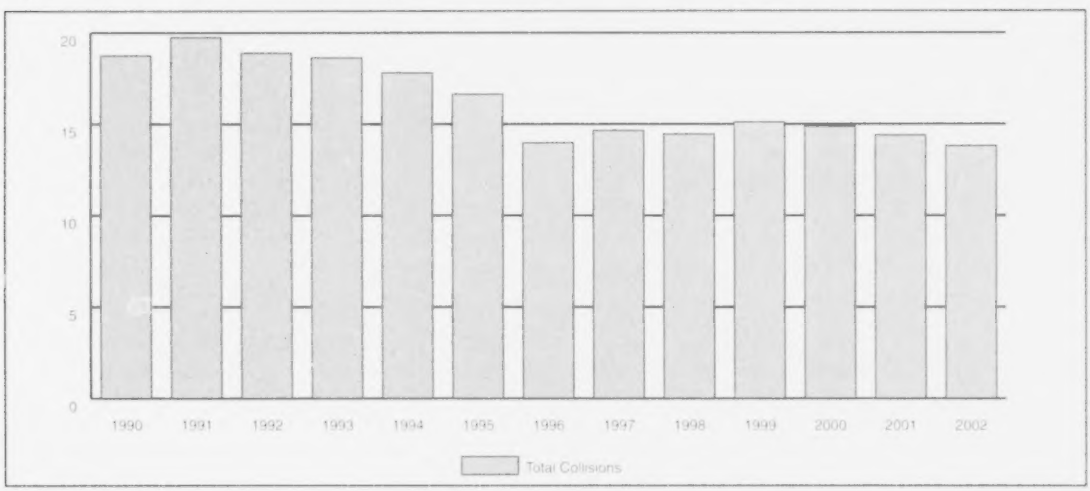
Source: Service Nova Scotia and Municipal Relations

Exhibit 9.3 **Road Fatalities in Nova Scotia For Years Ended December 31 (unaudited)**



Source: *Department of Transportation and Public Works*

Road Collisions in Nova Scotia For Years Ended December 31 (in thousands, unaudited)



Source: *Department of Transportation and Public Works*

Canadian Motor Vehicle Traffic Collision Statistics: 2002 (unaudited)

Exhibit 9.4

	Per 100,000 Population		Per Billion Vehicle-Kilometres		Per 100,000 Licensed Drivers	
	Fatalities	Injuries	Fatalities	Injuries	Fatalities	Injuries
Canada	9.3	725.1	9.3	721.2	13.9	1,076.3
Newfoundland and Labrador	7.1	502.3	10.0	701.2	11.2	787.7
Prince Edward Island	13.6	749.0	14.3	789.8	18.9	1,041.7
Nova Scotia	9.3	629.7	8.5	574.0	13.5	912.4
New Brunswick	13.7	666.0	12.2	592.3	20.0	966.8
Quebec	9.4	716.1	9.9	749.1	15.3	1,160.3
Ontario	7.3	696.3	7.1	679.4	10.5	998.8
Manitoba	9.5	828.3	10.8	948.9	16.0	1,395.8
Saskatchewan	13.5	719.2	12.3	652.7	20.6	1,092.0
Alberta	11.9	931.0	10.1	783.6	15.9	1,241.6
British Columbia	11.3	708.6	12.4	776.6	16.7	1,047.5
Yukon	40.1	909.0	25.3	572.6	54.0	1,224.8
Northwest Territories	7.2	555.5	8.4	643.2	10.8	828.9
Nunavut	10.4	N/A	N/A	N/A	N/A	N/A

Source: Transport Canada website

DEPARTMENTS OF TRANSPORTATION AND PUBLIC WORKS, JUSTICE, AND SERVICE NOVA SCOTIA AND MUNICIPAL RELATIONS' RESPONSE

The Departments are pleased that the audit confirms that there are systems for ensuring government compliance with provincial legislation and regulations that relate to road safety. The conclusions and recommendations presented will assist to strengthen the administration, management, analysis and evaluation procedures contributing to a continuing decrease in collisions, deaths and injuries as Nova Scotia strives to achieve the Road Safety Vision 2010 objectives.

The following statements are offered to provide clarification on specific elements of the report:

- The Department of Transportation and Public Works accurately reports on an annual basis the number of motor vehicle deaths that happen on public streets and highways consistent with the established criteria to classify these deaths. The persons involved in any collision where death or injury occurs, or property damage exceeds $1,000, have a legal responsibility to report the collision to the Registrar of Motor Vehicles.

- Service Nova Scotia and Municipal Relations is confident that the motor vehicle database accurately reflects vehicle registration for the Province.

- The Department of Justice sets strategic goals for the RCMP to ensure a broad focus is brought to bear on provincial priorities. The *RCMP Act* and *Provincial Police Service Agreement* require that operational management decisions be made by the RCMP who have the expertise and flexibility to ensure responsiveness in an ever changing public safety environment. The RCMP publish an annual report which outlines initiatives and results in response to the strategic priorities set by Nova Scotia. We collaborate with the RCMP and Municipal Police on road safety through monthly executive meetings between the RCMP and Justice Officials and other forums such as the Nova Scotia Chiefs of Police meetings.

The following actions respond to the principal observations from the audit:

- The quality of information and reporting is being addressed. Transportation and Public Works is currently developing two annual reports. The first is to report the annual collision statistics for the province and, the second, to report the progress towards Road Safety Vision 2010 objectives and benchmarks. Service Nova Scotia and Municipal Relations

has commenced design of an automated process to capture and analyze collision reports with improved accuracy and timeliness.

- The Department of Justice is improving the governance relationship with the RCMP to better understand their internal operational measures and to develop appropriate reporting mechanisms to allow for more detailed reporting on strategic goals.

- Administrative action has been taken to ensure complete records and communication protocols for the Road Safety Advisory Committee and Deputy Minister oversight committee.

Crown Agencies and Corporations

10 EMERGENCY MEASURES ORGANIZATION OF NOVA SCOTIA

BACKGROUND

10.1 The Nova Scotia Emergency Measures Organization (EMO) is an agency of the Province. Its mission is "*to ensure the safety and security of Nova Scotians, their property and environment by providing for a prompt and coordinated response to an emergency.*" The Organization's emergency response authority is provided by the Emergency Measures Act and related Regulations. Major responsibilities of EMO in this area are the review and approval of Provincial and Municipal emergency plans, and the provision of emergency preparedness training.

10.2 EMO is also responsible for the operation of the Emergency 911 system (E911), in accordance with the Emergency "911" Act. As well, it administers Provincial participation in the Federal disaster financial assistance program, and administers the Provincial enhanced disaster financial assistance program.

10.3 The Nova Scotia E911 emergency response system is a telecommunications system designed and operated by the Province and a private-sector telecommunications provider. Telephone customers are charged a monthly fee to recover the cost of providing E911 and related services. A portion of the fee is retained by telecommunications companies to recover billing and collection costs. The remainder is remitted to the Province and credited to the E911 Cost Recovery Fund. There is an additional fee charged and retained by some telecommunication companies relating to E911, but it falls under Federal jurisdiction and is reviewed by Federal regulators.

10.4 The Federal disaster financial assistance program is a Federal government initiative to provide financial assistance to Provincial governments when the cost of dealing with a disaster will place an undue burden on a Provincial economy. Payments under the program are subject to Federal eligibility requirements.

10.5 The enhanced disaster financial assistance program is a Provincial program designed to meet the needs of certain individuals and businesses affected by Hurricane Juan in September 2003 who are not eligible for assistance under the Federal program. The enhanced program targets the fishing, farming and forestry sectors. Applicants must meet Provincial eligibility requirements to receive assistance under this program.

10.6 EMO has a total staff complement of 14. Its headquarters are in Dartmouth, Nova Scotia. There are also three regional offices, located in Kentville, Truro and Sydney.

10.7 Total operating costs budgeted for the year ended March 31, 2004 were $2.7 million, with recoveries of $2.0 million. Actual costs for the same period were $46.5 million, with recoveries of $33.5 million. Costs and recoveries were higher

than expected due to disaster financial assistance paid during the year and the accrual of recoveries from the Federal government.

RESULTS IN BRIEF

10.8 The following are our principal observations from this audit.

- The Emergency Measures Organization has appropriate systems for assessing whether municipalities have emergency measures plans which comply with legislation. EMO also evaluates municipalities' general state of preparedness for emergencies and provides assistance to help municipalities improve plans.
- There is an emergency plan in place for the Province. EMO has a process in place to collect and review departmental emergency plans, but not all of the plans have yet been collected and no assessments have been completed by EMO to date.
- Provincial regulations require EMO to ensure important Provincial government services are continued in the event of a war-time emergency. No such requirement exists for a peace-time emergency and, based on our enquiries, there is no government organization ensuring that departments and agencies have up-to-date service continuity plans.
- A lack of clarity regarding documentation required to support Provincial claims under the Federal disaster financial assistance program has caused delays in the Provincial government recovering assistance paid to individuals and organizations affected by disasters.
- EMO has appropriate systems and controls to manage its capital assets. Various issues regarding EMO's command centre site have been raised by internal reviews and steps are being taken to address the more significant ones.
- The E911 Cost Recovery Fund has insufficient procedures to ensure that all fees due from telecommunication companies are received by the Fund. The agreements with the companies contain provisions under which the companies' records can be audited, but no such audits have been performed.

AUDIT SCOPE

10.9 In April 2004, we completed a broad scope audit of the Nova Scotia Emergency Measures Organization. The audit was conducted in accordance with Section 8 of the Auditor General Act and auditing standards established by the Canadian Institute of Chartered Accountants, and included such tests and procedures we considered necessary in the circumstances.

10.10 The objectives of the audit were to assess systems and controls in place to ensure:

- compliance with existing legislation, regulations, policies and agreements;
- disaster financial assistance is provided only to persons and organizations eligible to receive assistance, assistance is used only for purpose(s) allowed, and all eligible recoveries from the Federal government occur;
- capital assets are acquired based on assessed needs, in an economical manner and are protected and managed with due regard for economy and efficiency; and
- safeguarding of public funds and compliance with existing legislation, regulations, policies and agreements with respect to the E911 Cost Recovery Fund.

10.11 Audit criteria were developed to assist in the planning and performance of the audit. The criteria were discussed with and accepted as appropriate by senior management of the Nova Scotia Emergency Measures Organization.

10.12 Between the time that our Office selected this organization for audit and the start of audit fieldwork, Nova Scotia experienced Hurricane Juan. Despite the resulting increase in the workload of EMO, management did not request a postponement of the audit. During audit fieldwork, the Province experienced a major blizzard. Despite the additional efforts needed to respond to this weather event, management continued to respond to our audit enquiries in a reasonable and timely manner. We wish to commend the management and staff of EMO for the assistance and cooperation extended to us during a period which saw two states of emergency being declared.

PRINCIPAL FINDINGS

Compliance

10.13 Emergency preparedness - The Emergency Measures Organization is responsible for sections of the Emergency Measures Act and the Civil Emergency Planning Regulations which require the Province and municipalities to have emergency measures plans.

10.14 EMO's Provincial Emergency Management Manual is the Province's emergency measures plan. We reviewed the manual and found that it clearly defines roles and responsibilities and has specific protocols for responding to emergencies. The manual is available to all individuals with emergency planning and response responsibilities. EMO has a process in place to review and update the manual on a regular basis.

10.15 The Civil Emergency Planning Regulations require all Provincial departments and agencies with assigned specific emergency planning responsibilities to "*prepare a departmental disaster plan for inclusion in the overall Provincial Disaster Plan.*" EMO's 2004-05 business plan identifies this matter as a priority. A process has been put in place to collect and review departmental emergency plans, but not all of the plans have yet been collected and no assessments have been completed by EMO to date. Departmental plans are not included in the overall Provincial plan, but the Provincial plan contains an outline of the roles and responsibilities of Provincial entities and the appropriate process for responding to an emergency.

10.16 Our audit noted that there are appropriate systems in place at EMO to assess and monitor municipal plans for compliance with the Emergency Measures Act. Of the 53 municipalities evaluated by EMO in 2002, 92% were in compliance with the Act.

10.17 However, as is stated in EMO literature, "*it is well understood by all parties that compliance does not necessarily mean that the municipality is prepared for an emergency.*" Accordingly, EMO's evaluation process also assesses the level of preparedness of municipalities. We observed that approximately 17% of the municipalities evaluated in 2002 had an overall rating of below fair. Municipalities generally ranked low in the area of telecommunications planning. EMO works with municipalities on a regular basis to help them improve their level of preparedness.

10.18 In addition to requiring the Province and municipalities to prepare emergency measures plans, the Emergency Measures Act allows the Minister to require other entities to develop emergency measures plans in conjunction with EMO or municipalities. Accordingly, municipalities are to integrate appropriate parts of the emergency plans of designated institutions (e.g., regional school boards, nursing homes, correctional facilities) into municipal plans. Such integration is considered in EMO's evaluation of municipal plans.

10.19 EMO also has an agreement with the Departments of Health and Community Services in which EMO will conduct comprehensive annual reviews and evaluations of emergency plans and emergency exercises for special care homes. The agreement calls for a review of a minimum of six plans and six exercises for homes under the jurisdiction of each Department, totaling 24 such reviews annually. The agreement is effective for 2003-04 and subsequent fiscal years. However, EMO was unable to meet the terms of the agreement for 2003-04 due to the lists of homes not being provided until four to five months into the fiscal year.

10.20 Testing, training and evaluation - Key components of emergency preparedness are testing, training and evaluation. We observed that the Emergency Measures Organization has processes for the evaluation of training exercises and emergency plan testing. It also evaluates the performance of emergency plans subsequent to actual emergencies. As well, EMO provides annual basic emergency preparedness training to members of both the public and private sectors. However, in 2003-04 EMO was not able to perform as much training or evaluation of training exercises as management wished due to a need to respond to actual emergencies during the year.

10.21 Preparedness of other organizations – The Emergency Measures Organization has documented command structures and protocols for contacting and communicating with other entities in the event of an emergency. These include government entities such as hospitals, fire departments, police agencies and emergency medical services, as well as neighbouring provinces and states because mutual aid agreements provide for the sharing of resources in the event of an emergency.

10.22 EMO maintains an emergency contact list for these other agencies. However, there is no information at EMO about whether or not all key government agencies are adequately prepared to respond to an emergency because other Provincial departments or levels of government are responsible for these organizations.

10.23 Government service continuity – In the case of an emergency, it is important that critical government services not be interrupted for an extended period of time. The Civil Emergency Planning Regulations require the "*Emergency Measures Organization of Nova Scotia to develop ... a program to ensure the continuity of government in a war emergency...*" Neither the Regulations nor legislation assign this responsibility during a peacetime disaster. In such cases, the responsibility for government service resumption is unclear.

10.24 The Security Services Section of Transportation and Public Works provides security guidelines to government. These guidelines are not part of government policy, but are available to government departments and agencies and include guidance for restoring government services following an interruption. However, based on our enquiries, no government organization ensures the existence and effectiveness of departmental continuity plans.

Recommendation 10.1

We recommend that the Civil Emergency Planning Regulations be updated to include a process which ensures the continuity of government in both war and peacetime emergency situations. Responsibility for business continuity should be clearly and formally assigned.

Disaster Financial Assistance

10.25 Disaster financial assistance is provided by both the Federal and Provincial government. The Federal initiative is designed to provide financial assistance to provincial governments when a province elects to participate in the program and the cost of dealing with a disaster would place an undue burden on a province's economy. Availability of Federal assistance is determined by a funding formula whereby the level of assistance increases as the eligible costs increase. Under this program, provinces must pay financial assistance to victims of disasters based on Federal eligibility guidelines, and then file claims with the Federal government. Eligible costs are generally those which are not considered regular business or living costs, and which could not have been recovered by other means, such as through insurance, other government programs, or the courts.

10.26 The Provincial initiative is referred to as the enhanced disaster financial assistance program and was developed in response to Hurricane Juan. The enhanced program provides assistance to certain individuals and businesses ineligible under the Federal program. It targets the fishing, farming and forestry sectors.

10.27 Federal disaster financial assistance - The Province currently has four Federal disaster financial assistance claims at various stages of completion. All payments have been made to eligible applicants for Tropical Storm Harvey of 1999 and for the Cape Breton floods of 2000. The process of reviewing applications is ongoing for the March 2003 floods and Hurricane Juan in September 2003. An advance on disaster financial assistance has been requested from the Federal government for Hurricane Juan, based on preliminary estimates. Part of the requested advance has been received. EMO officials are also in the preliminary stages of initiating a claim for the February 2004 blizzard.

10.28 Submitting claims to the Federal government and receiving final payments under the Federal disaster financial assistance program can be a lengthy process. Federal claims can only be submitted if a Provincial government has paid out assistance based on final, eligible and fully supported claims from disaster victims. Restoration work can take a year or longer to complete in many cases, especially with respect to major infrastructure items such as buildings, bridges and roads. While there are no formal deadlines established for such work, EMO management indicated they will draw upon their experience to date to develop and recommend time standards for disaster victims to complete restoration work and submit final costs with supporting documentation to EMO.

10.29 In addition, claims will only be paid by the Federal government after they have been audited. As of the date of this Report, Nova Scotia has submitted claims for Tropical Storm Harvey and the Cape Breton floods to the Federal government. The Tropical Storm Harvey claim and supporting files were submitted for audit in October 2001, and subsequently returned in November 2002 with questions and documentation requests. The claim had not been re-submitted as of the date of this Report and no payments had been received from the Federal government.

10.30 As a result of Federal auditing to date, EMO management has expressed concern over the lack of clarity surrounding the documentation and support requirements for the Federal disaster financial assistance program. In January 2004, EMO contracted with a national accounting firm to conduct a review of recent claim files and to develop processes, procedures and checklists to be followed in the Provincial evaluation of future claims for disaster relief. As part of the assignment, the firm is required to work with all parties involved in the administration of Federal disaster financial assistance, both Federal and Provincial, to determine documentation standards for the Province.

10.31 Provincial disaster financial assistance -The enhanced disaster financial assistance program is a Provincially-funded initiative approved by Executive Council on October 31, 2003 in response to Hurricane Juan. Funding to a maximum of $15 million was authorized. A committee consisting of Deputy Ministers and

representation from the Premier's Office was created to advise and assist the Ministers of the departments impacted by the enhanced program. There are no terms of reference for the committee, nor were minutes of meetings maintained. We advised that terms of reference and minutes should be maintained by government committees responsible for the expenditure of public money.

10.32 In order to address the needs of the targeted sectors (farming, fishing and forestry), eligibility requirements for the enhanced program differed from those of the Federal disaster financial assistance program. The Memorandum to Cabinet approved by Executive Council for the enhanced program included the following notable differences from the Federal program.

- Farmers who leased fields, or fishers who leased or shared wharves would be eligible. Under the Federal program, only owners of damaged property could submit claims.
- Farmers who could only get partial insurance on barns would be eligible for assistance. Under the Federal program, only uninsurable losses could be claimed.
- The 51% of income criteria for woodlot owners was removed. Under the Federal program, claims could only be submitted for losses by small businesses if the majority of the business owner's total income came from the business.

10.33 Subsequently, two other significant changes were made to the enhanced program. These differences were not included in the Memorandum approved by Executive Council, but were communicated to EMO verbally by its Minister.

- Under the Federal program, only uninsurable losses could be claimed. For the Province's enhanced program, farmers' losses could be claimed, whether insurable or not, as long as insurance was not purchased.
- The $1,000 deductible present in the Federal program was eliminated for the enhanced program.

Recommendation 10.2

We recommend that changes to Executive Council approvals for financial assistance programs be formally documented.

10.34 Audit testing – A sample of files were selected from each of the disaster financial assistance claims undertaken to date, including the enhanced Provincial disaster assistance program. We examined claims from individuals, businesses and municipalities affected by a disaster. In total, we tested 60 disaster financial assistance files, including both denied and approved claims.

10.35 In our examination of files for denied claims, there was only one instance where the documents in the file did not clearly support the denial. In that instance, the decision was not appealed by the applicant.

10.36 For approved claims, the majority of the issues identified during our testing were related to files selected from the claims for the Cape Breton and the Tropical Storm Harvey floods. These were the first two Federal disaster financial assistance claims prepared by the Province and documentation standards were not well defined at the time. The most prevalent issue with the files was a lack of documentation of insurability. However, EMO management informed us that the Federal government's auditors have accepted overland flooding as an uninsurable loss and the insurance issue should not be an obstacle to the Province's recovery of the costs related to these claims.

10.37 Our audit noted improvement in more recent files – those related to the March 2003 floods and Hurricane Juan. However, our testing noted a couple of instances of inadequate documentation in these files as well.

Recommendation 10.3

We recommend that all disaster financial assistance claim files include adequate support for the final decision on eligibility to ensure that assistance paid can be recovered on a timely basis from the Federal government.

Resource Management - Capital Assets

10.38 EMO facility – The Emergency Measures Organization shares a head office facility in Dartmouth with emergency preparedness offices of the Federal government and the Halifax Regional Municipality. This facilitates improved communication and coordination among the various levels of government. The arrangement also allows for the sharing of facility and various other operational costs.

10.39 EMO has a well-equipped facility. It has multiple communication systems and a back-up power supply which is regularly serviced and tested. However, the facility is not adequately equipped to house and support personnel who would be required to remain there for an extended period of time in the event of a major disaster. The facilities are not well equipped with food, water, medical and other supplies which may be required in a disaster situation. Management has addressed some of these concerns, but more needs to be done.

10.40 Space allotments in EMO's facility were determined by government-wide policies related to office space. A debriefing subsequent to Hurricane Juan identified space limitations as a concern. In our view, space allotments should be based on operational needs and not general, government-wide policies.

10.41 EMO's facility is not a "hardened" site, since it does not have a protected, self-contained environment to shield it from a disaster. It is located a short distance from Halifax Harbour, near a refinery and other industrial enterprises, and may be incapacitated if a disaster occurs in the immediate vicinity. However, EMO management indicated to us that a joint Federal-Provincial backup facility plan is currently being developed.

10.42 EMO has appropriate systems and practices in place to safeguard and manage the performance of its capital assets. Access to the facility is restricted and security measures are actively enforced. However, areas for improvement in security systems and processes were identified. We also noted that there were no formal policies and procedures related to security. EMO staff have started to address the identified weaknesses.

10.43 Capital acquisitions - The Emergency Measures Organization has an appropriate system in place to identify capital asset requirements. Requirements are identified through evaluation of asset performance in training exercises and after use in real emergencies. Capital asset needs are evaluated as part of the annual operational budgeting process and are funded from the Organization's operational budget. EMO does not prepare an annual capital budget request for inclusion in the Provincial capital budgeting process and we advised that it consider doing so.

10.44 EMO does not perform formal post-implementation evaluations for major systems to assess the financial and non-financial outcomes of projects against original plans. With respect to the E911 system, there has been no formal comparison or reporting of actual system costs incurred to costs estimated in the original plans.

Recommendation 10.4

We recommend that the capital acquisition process of the Emergency Measures Organization include a requirement for a formal post-implementation evaluation when significant new systems are acquired.

10.45 EMO has formal and informal processes to monitor and assess the adequacy and efficiency of capital assets. Formal systems are in place for the E911 emergency response system. The performance of the E911 system is regularly monitored and evaluated against contract specifications. System performance is guaranteed by the vendor of the system and this guarantee is supported by a contract performance bond. Less formal processes consist of regular meetings, performance reviews and debriefing sessions held subsequent to training exercises and disasters.

10.46 We also observed that EMO does not have a documented long-term capital plan, nor does the Province require preparation of one. We advised that a formal long-term capital plan for both owned and leased assets be prepared.

Nova Scotia E911 Cost Recovery Fund

10.47 The E911 Cost Recovery Fund is managed by the E911 Fund Committee and administered out of the office of the Emergency Measures Organization. The Fund derives its revenue from the E911 Cost Recovery Fee charged to telephone customers in Nova Scotia and from income on invested funds. The purpose of the Fund is to finance core E911 operations; primarily the operation of a central reception service for all emergency phone calls throughout the Province. Funds which are not needed to support core E911 activities are available for various activities indirectly related to the provision or improvement of E911 service (e.g., poison control and highway signage programs). Such programs were previously funded by other government departments.

10.48 The Regulation which provides the authority to charge telephone customers the E911 Cost Recovery Fee took effect on April 1, 2001. Assessment of the fee to telephone customers began in September 2001. Telephone customers in Nova Scotia pay $0.43 per month per telephone and cell phone account. Of this fee, $0.36 (84%) is paid to the Fund and $0.07 (16%) is retained by the telecommunications service provider to cover billing and collection costs. There is an additional fee charged and retained by some telecommunications companies relating to E911, but the fee falls under Federal jurisdiction and is reviewed by Federal regulators.

10.49 Monthly payments from telecommunications companies are made to an accounting firm acting as trustee. The firm is also provided with statistical information on the number and type of accounts charged the monthly fee. The firm deposits the payments in its own account, summarizes the information, and sends Fund management a monthly cheque for the total of all payments received and a summary financial report. This arrangement was negotiated with the telecommunications companies so that information which the companies regard as sensitive is not received by the Province. The contract with the accounting firm requires that companies' individual reporting be kept confidential.

10.50 For the year ended March 31, 2003, the Fund collected $4.3 million in fees and had $4.4 million in expenditures:

- $2.3 million of the expenditures related to core E911 activities;
- $1.4 million was to support E911 emergency-related programs; and
- $0.7 million was paid to telecommunications companies for collection and administration costs.

10.51 We noted that not all revenues and expenses of the Fund are included under EMO in the annual Estimates of the Province. The Estimates only include expenses and associated recoveries directly related to core E911 activities ($2.3 million for 2002-03). The financial statements of the Fund do not appear in the annual Public Accounts (Volume 2).

Recommendation 10.5

We recommend that EMO management consult with officials of the Department of Finance and Treasury and Policy Board about including more information on the financial position and operations of the E911 Cost Recovery Fund in the public financial reporting of the Province.

10.52 The $0.43 monthly rate is prescribed in the E911 Cost Recovery Fee Regulations. The original analysis upon setting the fee was limited to one year and the documentation supporting the setting of the fee was insufficient for us to determine whether fee revenues are appropriate to meet the long-term costs of the Fund. The fee rate has not been reviewed since it took effect in 2001. We noted the need for regular review and assessment of the E911 Cost Recovery Fee to determine whether it is an appropriate amount in relation to current and future costs of providing E911 and related services.

10.53 The E911 Cost Recovery Fund has insufficient procedures to ensure that all amounts due from the telecommunications companies are remitted to the trustee of the Fund, and that all amounts due from the trustee are remitted to the Fund. The annual financial statements of the Fund are audited, but the audit does not address whether or not all amounts owing to the Fund have been received. The agreements with the various companies contain a provision under which the Province can audit the companies' records, but no such audits have been performed.

Recommendation 10.6

We recommend the establishment of adequate controls to ensure all amounts due to the E911 Cost Recovery Fund are collected.

10.54 The Emergency 911 Cost Recovery Regulations define the costs which may be paid from of the E911 Cost Recovery Fund. We noted that some costs, such as management salaries and office supplies, are shared between EMO and the Fund. Cost allocations are based on management decisions on an account-by-account basis. The cost-sharing ratios chosen are rough estimates, and thus are not fully supported by documentation. We advised that cost allocations be performed more formally because eligibility of costs charged to the E911 Cost Recovery Fund is a matter of Provincial regulation.

10.55 Plans and budgets are prepared, reviewed and approved for the Fund on an annual basis. The plan and budget for the 2003-04 fiscal year were submitted to the Minister on August 20, 2003, almost five months into the fiscal year.

Recommendation 10.7

We recommend that the annual plans and budgets of the E911 Cost Recovery Fund be approved prior to the start of the fiscal year to which they relate.

10.56 We noted that there are no terms of reference for the E911 Fund Committee. The purpose and mandate of the Committee were discussed in the minutes of the first Committee meeting, but we advised that they be formalized to provide a foundation for future operations of the Committee.

10.57 The E911 Fund Committee has not met since June 2003 and regular monthly reporting has not taken place since October 2003. The Manager of the Nova Scotia E911 Emergency Reporting System is also the Deputy Director of EMO. When disasters occur, the time available for E911 duties is significantly diminished. EMO has received approval from government to hire an additional staff member to address this shortcoming.

CONCLUDING REMARKS

10.58 In our opinion, the Nova Scotia Emergency Measures Organization has appropriate systems and controls for ensuring compliance with legislation, regulations, policies and agreements. We made a recommendation for the modernizing of certain Provincial regulations.

10.59 We concluded that there needs to be improved understanding of the documentation required to support eligibility for claims under the Federal disaster financial assistance program. We observed that management has undertaken a major initiative to clarify documentation requirements.

10.60 EMO has appropriate systems and controls for the management of its capital assets. We recommended the performance of post-implementation reviews after major new systems or assets are acquired.

10.61 We believe there is insufficient control to ensure that all fees collected by telecommunications companies and owed to the E911 Cost Recovery Fund are received.

Appendix

I AUDITOR GENERAL ACT - SECTIONS 8, 9, 15, 17

AUDITOR GENERAL ACT

SECTION 8

The Auditor General shall examine in such manner and to the extent he considers necessary such of the accounts of public money received or expended by or on behalf of the Province, and such of the accounts of money received or expended by the Province in trust for or on account of any government or person or for any special purposes or otherwise, including, unless the Governor in Council otherwise directs, any accounts of public or other money received or expended by any agency of government appointed to manage any department, service, property or business of the Province, and shall ascertain whether in his opinion

(a) accounts have been faithfully and properly kept;

(b) all public money has been fully accounted for, and the rules and procedures applied are sufficient to secure an effective check on the assessment, collection and proper allocation of the capital and revenue receipts;

(c) money which is authorized to be expended by the Legislature has been expended without due regard to economy or efficiency;

(d) money has been expended for the purposes for which it was appropriated by the Legislature and the expenditures have been made as authorized; and

(e) essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public property.

SECTION 9

(1) The Auditor General shall report annually to the House of Assembly on the financial statements of the Government that are included in the public accounts required under Sections 9 and 10 of the *Provincial Finance Act*, respecting the fiscal year then ended.

(2) The report forms part of the public accounts and shall state

(a) whether the Auditor General has received all of the information and explanations required by the Auditor General; and

(b) whether in the opinion of the Auditor General, the financial statements present fairly the financial position, results of operations and changes in financial position of the Government in accordance with the stated accounting policies of the Government and as to whether they are on a basis consistent with that of the preceding year.

(3) Where the opinion of the Auditor General required by this Section is qualified, the Auditor General shall state the reasons for the qualified opinion.

SECTION 9A

(1) The Auditor General shall report annually to the House of Assembly and may make, in addition to any special report made pursuant to this Act, not more than two additional reports in any year to the House of Assembly on the work of the Auditor General's office and shall call attention to every case in which the Auditor General has observed that

(a) any officer or employee has wilfully or negligently omitted to collect or receive any public money belonging to the Province;

(b) any public money was not duly accounted for and paid into the Consolidated Fund of the Province;

(c) any appropriation was exceeded or was applied to a purpose or in a manner not authorized by the Legislature;

(d) an expenditure was not authorized or was not properly vouched or certified;

(e) there has been a deficiency or loss through fraud, default or mistake of any person;

(f) a special warrant, made pursuant to the provision of the *Provincial Finance Act*, authorized the payment of money; or

(g) money that is authorized to be expended by the Legislature has not been expended with due regard to economy and efficiency.

(2) The annual report of the Auditor General shall be laid before the House of Assembly on or before December 31st of the calendar year in which the fiscal year to which the report relates ends or, if the House is not sitting, it shall be filed with the Clerk of the House.

(3) Where the Auditor General proposes to make an additional report, the Auditor General shall send written notice to the Speaker of the House of Assembly thirty days in advance of its tabling or filing pursuant to subsection (2).

(4) Whenever a case of the type described in clause (1)(a), (b) or (e) comes to the attention of the Auditor General, the Auditor General shall forthwith report the circumstances of the case to the Minister.

(5) The Auditor General shall, as soon as practical, advise the appropriate officers or employees of an agency of Government of any significant matter discovered in an audit.

(6) Notwithstanding subsection (1), the Auditor General is not required to report to the House of Assembly on any matter that the Auditor General considers immaterial or insignificant.

Section 9B

(1) The Auditor General shall annually review the estimates of revenue used in the preparation of the annual budget address of the Minister of Finance to the House of Assembly and provide the House of Assembly with an opinion on the reasonableness of the revenue estimates.

(2) The opinion of the Auditor General shall be tabled with the budget address.

Section 15

Notwithstanding any provision of this Act, the Auditor General may, and where directed by the Governor in Council or the Management Board shall, make an examination and audit of

(a) the accounts of an agency of government; or

(b) the accounts in respect of financial assistance from the government or an agency of the government of a person or institution in any way receiving financial assistance from the government or an agency of government,

where

(c) the Auditor General has been provided with the funding the Auditor General considers necessary to undertake the examination and audit; and

(d) in the opinion of the Auditor General, the examination and audit will not unduly interfere with the other duties of the Office of the Auditor General pursuant to this Act,

and the Auditor General shall perform the examination and audit and report thereon.

Section 17

(1) Where the Governor in Council pursuant to this Act or any other Act has directed that the accounts of public money received or expended by any agency of government shall be examined by a chartered accountant or accountants other than the Auditor General, the chartered accountant or accountants shall

(a) deliver to the Auditor General immediately after the completion of the audit a copy of the report of findings and recommendations to management and a copy of the audited financial statements relating to the agency of government; and

(b) make available to the Auditor General, upon request, and upon reasonable notice, all working papers, schedules and other documentation relating to the audit or audits of the agency accounts.

(2) Notwithstanding that a chartered accountant or accountants other than the Auditor General have been directed to examine the accounts of an agency of government, the Auditor General may conduct such additional examination and investigation of the records and operations of the agency of government as he deems necessary.